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## THE ERM: PICKING UP THE PIECES

# How ministers agreed to march to common tune

## ERM bands produce sort of harmony

By Lionel Barber in Brussels

IT WAS Mr Karlheinz von den Driesch, the amiable, grey-bearded spokesman for the German finance ministry, who first broke the news.

Stepping into the foyer of the Borschette building in the centre of Brussels, he pushed his way through a wall of television cameras and frantic reporters, to whisper five words to a familiar German journalist: "Wide fluctuation bands for everyone."

At 1.45am - just 15 minutes before the Tokyo financial markets opened - the world learned that European Community finance ministers had, after a fashion, saved the European exchange rate mechanism.

The ministerial meeting was a tense, at times brutal power struggle involving almost 60 officials from 12 member states, including central bank governors and members of the European Commission. It led to a solution which, in the words of Mr Wim Kok, Dutch finance minister, is "the worst but one solution".

Each state had its own "bottom line", each had a de facto veto on the outcome of the crisis talks which began on Saturday afternoon with a seven-hour session of the secretive EC monetary committee.

That meeting produced only the barest agreement on principles: that the ERM and its central party grid had to be preserved. There was no agreement on how this goal was to be achieved, according to an official.

The main difficulty centred on France's absolute refusal to countenance a devaluation of the franc, and Germany's absolute insistence that the Bundesbank could not be expected to offer unlimited intervention - not least because of the risk of bloating its money supply and triggering a new spiral of inflation.

In the early afternoon session on Sunday, Franco-German divisions appeared momentarily to have abated when Mr Theo Waigel, German finance minister, and Mr Edmond Alphandery, French economy minister, put forward a joint initiative suggesting the D-Mark leave the ERM.

A European monetary official said Germany's preferred solution was to widen the margins of fluctuation for all ERM currencies in order to limit intervention; but the exit of the D-Mark suggested an apparent willingness to patch up differences with the French. It led to Mr van den Driesch's confident prediction - "There is a solution" - followed by a report from Paris that Mr Edouard Balladur, French prime minister, was due to hold a news conference at 1pm.

Suddenly the talks stumbled. The Netherlands, which has traditionally maintained a currency parity with the D-Mark, signalled that it intended to follow the Germans out of the ERM. It would not endange the monetary stability which flowed from the guild's close link with the D-Mark.

The Dutch protest led to a stampede among the rich northern European countries,

with Luxembourg, Belgium and then Denmark indicating that they too wanted to leave. "Suddenly we were looking at France sitting alone in the ERM with Spain and Portugal," said one source.

At this point, news came that Mr Balladur had cancelled his press conference. The talks shifted to a widening of the fluctuation bands, with Germany calling for France to shift from its narrow 2.25 per cent margin to 6 per cent.

According to a European monetary official, the Germans sweetened their offer with an implicit cut in short-term interest rates - a promise which had added credibility since Mr Helmut Schlesinger, Bundesbank president, and Mr Hans Tietmeyer, his deputy and successor-designate, were present in the talks.

However, French officials turned down the offer on the grounds that it would have amounted to a devaluation which again would have put France in a "second tier" with Spain and Portugal. France also turned down an offer of a 10 per cent fluctuation band.

They did not want the margin to be tested, said one official present at the talks.

Then the French counter-attacked. In one tense quadrilateral meeting between Germany, France, and the Netherlands chaired by Belgium in its role as president of the EC, the Dutch came under "tremendous" pressure to break their link with the Germans; but Mr Kok and Mr Wim Duisenberg, Dutch central bank governor and front-runner to head the putative European central bank, refused to budge.

Mr Jacques Delors, European Commission president, also weighed in on behalf of the Germans leaving the ERM and declaring that he was opposed to a general flotation of currencies. The statement was not cleared with the rest of the Commission, a senior EC official said.

The British, forced out of the ERM last September along with the Italians, remained low-key throughout, despite earlier talks of an "honest broker" role being played by Mr Kenneth Clarke, chancellor of the exchequer. He appears to have accepted advice that it could encourage a backlash from Europeans frustrated that the British, after all, might have had a point about "fault-lines" within the ERM.

Finally, after numerous variations of wider bands involving various member states, the solution was found: a fluctuation band of 15 per cent for all currencies barring the D-Mark and guilder.

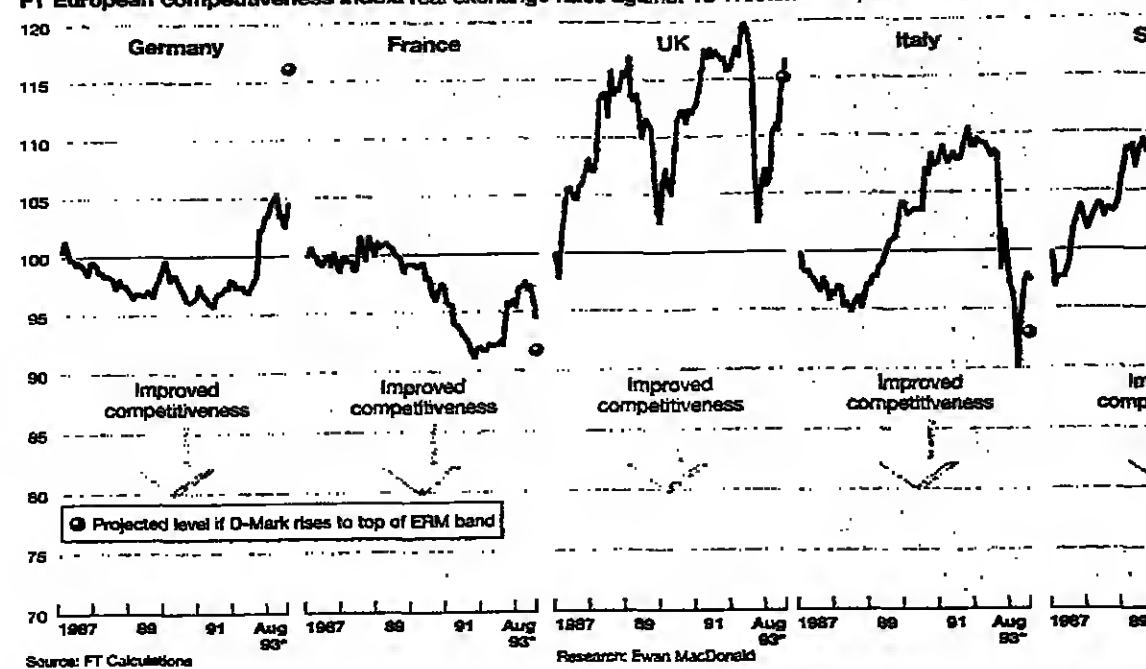
The aim was two-fold: to disguise a de facto French devaluation as well as the de facto suspension of the system.

Grim ministerial faces early yesterday revealed the tensions of the previous 12 hours. They also pointed to the lack of unity within the Community, summed up by the fact that the German-Dutch agreement to maintain parity was not even included in the official communiqué.

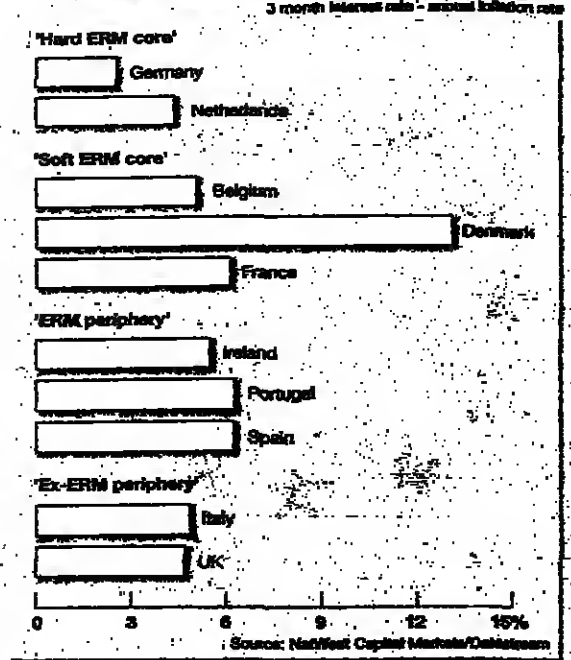
The ERM had survived, but at a substantial price.

## Europe's monetary policy dilemmas

FT European competitiveness index: real exchange rates against 13 Western European countries, Jan '87=100



## Short term real interest rates, latest figures: 3 month interest rate - annual inflation rate



# Welcome flexibility, goodbye simplicity

## Life in the new system promises to be more complicated, writes Edward Balls

FOR ALL its flaws and inflexibilities, the semi-fixed version of the exchange rate mechanism, which Europe's leaders effectively abandoned last weekend, had one great advantage: simplicity.

Europe's new dirty floating regime may, at last, be about to deliver cuts in interest rates that France and most of its other ERM partners desperately need.

But, after one day of practice with the new "flexible ERM", it is already apparent that life will continue to be economically complicated, as well as politically difficult, for Europe's finance ministers.

Part of the new challenge of life after the hard ERM is technical: until last weekend, those European countries with narrow ERM bands had no effective power to pursue an independent monetary policy.

Now, with the freedom to appreciate and depreciate by as much as 15 per cent either side of the old parities, national central banks have much more discretion to cut interest rates below the Bundesbank's. The UK, for example, has lowered interest rates well below those of the ERM countries but would still have managed to remain within the system's new and gaping bands.

This new freedom should bring welcome relief to Europe's troubled economies, assuming that they take advantage of their bands and cut interest rates. Indeed, the reason for the exchange pressure on France, Bel-

gium and Denmark, which effectively destroyed the ERM last Friday, was a belief in the markets that these economies could not sustain Germany's high rates.

The right-hand chart above shows just how distorted the structure of European real interest rates had become. Germany, battling with a persistent public sector inflation problem, needs higher rates than low inflation countries like France. But measured by inflation-adjusted real interest rates this monetary squeeze was doubly severe.

The result is that countries in the "soft core" of the loose ERM - Belgium, Denmark and France - have real interest rates which are twice as high as those in Germany.

The economic case for substantial cuts in French, Belgian and Danish interest rates is therefore compelling. The depressed state of their economies, low levels of inflation and falling producer prices all suggest that the inflation risk from depreciation can be ignored for now.

In any case, the British experience of the past few months suggests that, once the markets become used to the floating rate and convinced that lower interest rates are delivering economic recovery, the exchange rate is at least as likely to go up as to fall further.

Yet things may not be that simple. For the deal early on Monday morning did not solve the economic and political problems that German unification has bequeathed to Europe. It

merely began a new, and maybe equally turbulent, period of effectively floating, rather than effectively fixed, exchange rates.

The hard ERM's collapse, and the publicly expressed desire of leading governments to keep to the timetable of the Maastricht treaty and thus return to narrow ERM bands by the

beginning of next year, make the monetary choices more complicated.

For if the French government is to avoid the charge that it has broken its promise not to devalue and recapture the anti-inflationary credibility that the hard ERM provided, then it must seek a return to narrow ERM bands as soon as possible. But the further France cuts interest rates, the longer it will have to wait for the Bundesbank to catch up and the further the monetary union timetable will be delayed.

That may help explain why France

did not cut rates yesterday, even though the markets were previously selling the franc because French interest rates were too high.

A second reason for concern is that the ERM's new flexibility might lead to complaints about "competitive devaluations" of the sort that France has accused Britain, in particular, of engaging in over the past nine months. This worry would be exacerbated if interest rates cuts and exchange rate depreciation occurred in a relatively unco-ordinated fashion.

Might these worries about competitive devaluations make sense? The charts above show the Financial Times' measure of price competitiveness in Europe, based on nominal effective exchange rates which are then weighted by European trade shares and adjusted for relative producer price inflation rates.

In fact, the evidence suggests that France has already made substantial gains in competitiveness over the past six years.

Yesterday's 3 per cent franc depreciation only goes part of the way to recapturing the losses that France has suffered since starting and the Italian lira left the ERM last September. But if the franc's policy was about improving French price competitiveness, then it has already been a success. The further the franc falls, the greater the gains.

The UK, by contrast, has not taken great advantage of floating exchange rates to recapture its lost competitive-

ness. Starting's appreciation of recent months has not completely removed the gains made since last September. But Britain's effective exchange rate, adjusted for the UK's relatively rapid wage inflation in the late 1980s, has actually appreciated by 16 per cent since 1987 - a marked loss of competitiveness.

But it is German industry which stands to lose the most from a sizeable fall in the value of the French franc over the next few months.

The chart shows that the inflation-adjusted D-Mark has already appreciated by 5 per cent since last September. And the logic of the Bundesbank's high interest rate policy, the German government's fiscal problems and the softening of the ERM, all point to a further rise in the currency.

Whether Europe's governments will be able to live with the differential movements in interest rates and shifts in exchange rate competitiveness, that the new soft ERM implies could prove to be an equally severe test of their ability to put collective concerns above national interests.

Mr Theo Waigel, the German finance minister, used a press conference yesterday to point out that Europe's finance ministers and central bank governors have agreed "not to abuse monetary policy to acquire artificial competitive advantages", is a worrying sign of tensions to come.

# British exporters take a positive view

## Danes and Belgians bolster currencies

By Emma Tucker, Economics Staff

INTEREST RATE cuts in Europe could speed up economic recovery in Britain.

But the benefits of stronger European growth need to be weighed against loss of UK competitiveness in his continental economies such as France, as well as the uncertainty and instability of effectively floating exchange rates.

With the scope for exchange rate fluctuations so wide, UK industrialists were yesterday facing the problem they used to face before the European exchange rate mechanism was established: how to assess prospects for the newly liberated currencies.

"I would be surprised to find any UK exporter or importer signing a contract for anything over the next few days," said Mr Richard Brown, deputy director-general of the British

Chambers of Commerce. "They just won't know what it is worth."

Even in the longer term, currency instability could upset business. Said Mr Richard Freeman, chief economist at Imperial Chemical Industries: "It is all very well talking about lower interest rates boosting growth, but currency instability does impact on trade. It is what causes protectionist pressures."

Volatile exchange rates are unlikely, however, to upset the advances exporters have made since sterling was devalued. Britain had a 10-month start over the countries that devalued yesterday and interest rate cuts in Europe - if or when they come - will make it easier for the UK government to cap sterling's rise with further rate cuts of its own, allowing the pound to stay competitive.

"Our exporters have done well in European markets, so

stand to do well from European growth," said Mr Brown.

The companies that will suffer most are likely to be those that compete directly with France and are particularly price sensitive, such as chemicals and pharmaceuticals.

Yet, on balance, most economists believe the boost to UK exports from faster growth in Europe will outweigh the loss of competitiveness.

Mr Howard Davies, director-general of the Confederation of British Industry said: "If the new ERM arrangements allow France and other European economies to cut interest rates and boost growth, then that would be good news for British businesses. The chancellor should be ready to cut UK rates if rates fall elsewhere, or if the pound rises sharply."

A possible negative factor for European growth and for UK exports, is that the stronger D-Mark might slow Germany's

recovery from recession.

"Germany needs a stronger D-Mark like it needs a hole in the head, and so does Europe," said Mr Freeman of ICI.

Mr Michael Saunders, UK economist at Salomon Brothers, said: "Near term, the stronger D-Mark is likely to deepen the German recession and reduce inflation pressures. Thus, hopes for an early recovery in Germany are even more tenuous than had previously been the case."

Alternatively, the appreciation of the D-Mark versus other ERM currencies strengthens the argument that German interest rates will fall further than expected, paving the way for more aggressive cuts across the rest of Europe.

The degree of disappointment that plans for monetary union and a single currency have suffered a setback.

Mr Brown said UK industri-

alists would be disappointed that monetary union was further away, while Mr Freeman said he feared that the problems of the ERM would slow completion of the European single market.

The UK's Institute of Directors believes a "single currency is off the agenda for the foreseeable future. However, Mr Peter Morgan, director-general, said European finance ministers should "give urgent consideration to the adoption of a 'common' currency, in parallel with national currencies to restore stability."

Such a common currency could be used by businesses to reduce the cost of cross-border transactions, he said. Economists were reluctant to quantify what the revamped ERM meant for growth in the UK. Most agreed, however, that the net effect, while slim, would at least be positive.

# Danes and Belgians bolster currencies

By James Burt, Economics Staff

THE central banks of Belgium and Denmark took measures to arrest the fall of their currencies against the D-Mark yesterday, possibly fearing sharp outflows from their bond and equity markets after the widening of the exchange rate mechanism's bands.

Most ERM countries appeared concerned yesterday that the new ERM regime could lead to disorderly devaluations of their currencies, and left interest rates unchanged.

But the Belgian authorities were concerned to hold their currency close to the former ERM floor to the D-Mark, intervening in the market at the BFR2.50 level against the German currency.

Denmark took even more drastic measures, raising one-month interest rates to 25 per cent, after the krone had fallen to DKr4.15 against the D-Mark from the previous floor of DKr3.9016. Both Belgium and Denmark have reasons to be more concerned than other countries about the prospect of a general exchange rate float against the D-Mark.

Belgian equity and bond markets have benefited from international flows of funds because of the close monetary and exchange rate relationship that the Belgian franc has had with the D-Mark in recent years.

Now that this has been untied, investors may focus more closely on the country's fundamental economic problems, including a huge public debt.

Denmark has a fundamentally stronger economic position than have many ERM countries, with the lowest inflation in Europe and a trade surplus. But some analysts believe the unravelling of the ERM may lead dealers to bracket Denmark with Sweden and Finland - both of which have undertaken substantial devaluations against the D-Mark in recent years.

# Same rules but easier to play

By Stephanie Flanders

WIDENING the currency bands to 15 per cent for all except the D-Mark and the guilder makes it much less demanding to be a member of the ERM. But the basic rules of the system are otherwise the same.

It is a "parity grid system", meaning each currency can only fluctuate a certain amount from a fixed "par value" with regard to every other member currency. In the revamped mechanism, all the par values are unchanged, but these rates will be a lot less relevant now that currencies can oscillate so widely.

Before last weekend, a currency's maximum deviation from its par value was only plus or minus 2.25 per cent, except for the Spanish peseta and the Portuguese escudo, which could move 6 per cent either way.

With 15 per cent bands, a currency could be theoretically devalued by 30 per cent -

from its ceiling to its floor - against another member without falling out of the system.

A look at the new floor and ceiling values for each member currency shows the impact of the broader bands. The French franc can now fall as low as FFfr3.8948 against the D-Mark, or rise as high as FFfr3.8981, before endangering its position in the ERM grid. Until yesterday morning, the franc's floor and ceiling against the D-Mark since 1987 had been FFfr3.4305 and FFfr3.2792, respectively.

According to the ERM's rules, whenever a currency is at its floor against another member, the central banks of both countries have to intervene to prevent the currency from falling out of the system.

In practice, the monetary authorities used to prop up a weak currency well before then. Even so, many economists doubt that the situation will arise very often while the wider fluctuation bands are in place.

THE FINANCIAL TIMES  
Published by The Financial Times  
(Europe) GmbH, Koenigsplatz 3,  
60118 Frankfurt am Main, Germany.  
Telephone: +49 69 156 330. Fax: +49  
69 156 331. Telex: 416193. Registered  
with the German Press Syndicate.  
Printer: DVM Druck-Vertrieb und  
Marketing GmbH, Adm.-Red.-Verl.  
Straße 3a, 63329 Neu-Isenburg (owned  
by Hymen International).  
Responsible Editor: Richard Lamb  
The Financial Times Limited,  
Number One Southwark Bridge,  
London SE1 9UL, UK. Shareholders  
of the Financial Times (Europe) Ltd,  
London and F.T. Germany  
Advertising Ltd, London. Shareholder  
of the above mentioned two companies  
is The Financial Times Limited,  
Number One Southwark Bridge,  
London SE1 9UL. The Company is  
incorporated under the laws of England  
and Wales. Chairman: D.C.M. Bell.

FRANCE  
Publishing Director: J. Rolley, 166 Rue  
de Rivoli, F-75004 Paris Cedex 01.  
Telephone: 01 4297-0621. Fax: 01 4297-0628. Printer: S.A. Nord Editeur,  
1521 Rue de Caen, F-91010 Evry.  
Cedex 1. Editor: Richard Lamb.  
ISSN: ISSN 1143-3753. Commission  
Paritaire No 670802.

DENMARK  
Financial Times (Scandinavia) Ltd,  
Vimeleiskade 47A, DK-1761  
Copenhagen 17. Telephone: 33 13 44 41.  
Fax: 33 93 33 35.

## ERM PARITY GRID

Bilateral central rates and selling and buying rates from August 2 1993

		BFfr	DKr 100=	FFfr 100=	DM 100=	£ 1=	Fl 100=	Esc 100=	Pta 100=
Belgium-Lux.	S	-	627.880	714.030	2395.20	57.7445	2125.80	24.2120	30.2715
	B	-	540.723	814.977	2082.55	49.7289	1830.54	20.8512	26.0896
Bfr/LuxFr	C	-	465.685	529.660	1776.20	42.8260	1576.45	17.9670	22.4810
Denmark	S	21.4747	-	132.066	442.968	10.6792	363.105	4.47770	5.59850
	B	18.4938	-	113.732	381.443	9.19676	338.537	3.55516	4.82128
DKr	C	15.9265	-	97.9430	325.461	7.92014	291.544	3.32080	4.15190
France	S	16.8900	102.100	-	386.480	9.38950	345.550	3.93700	4.92250
	B	16.2608	97.9257	-	335.396	8.09533	287.861	3.39556	4.23911
FFfr	C	14.0050	75.7200	-	268.810	6.96400	256.350	2.91990	3.65050
Germany	S	5.63000	30.4450	34.8250	-	2.80000	(103.055)*	1.17400	1.46800
	B	4.84957	26.2162	29.8164	-	2.41185	88.7526	1.01094	1.26395
DM	C	4.17500	22.5750	25.8750	-	2.07600	(76.4326)*	0.87100	1.08800
Ireland	S	2.33503	12.6210	14.3599	48.1695	-	42.7439	0.486881	0.60731
	B	2.01080	10.8734	12.3686	41.4737	-	36.8105	0.418295	0.524232
£	C	1.73176	9.36403	10.6500	35.7143	-	31.7007	0.381082	0.451462
Netherlands	S	8.34340	34.3002	39.0091	(130.334)*	3.15490	-	1.32265	1.85388
	B	8.46286	29.3598	33.5993	(112.670)	2.71662	-	1.13905	1.42413
Fl	C	4.70454	25.4385	29.9381	(97.0325)*	2.33952	-	0.98094	1.22644
Portugal	S	556.890	3011.20	3424.80	11481.10	276.938	10134.30	-	145.180
	B	479.590	2593.24	2949.37	9891.77	238.495	8773.18	-	125.027
Esc	C	413.020	2233.30	2540.00	8517.90	205.389	7560.50	-	107.870
Spain	S	445.418	2408.50	2739.30	9191.20	221.503	8153.70	92.6780	-
	B	383.589	2074.15	2356.98	7911.72	190.755	7021.83	79.8828	-
Pta	C	330.342	1788.20	2031.50	6812.00	164.276	6047.10	68.8800	-

\* = Exchange rate at which the central bank of the country in the left hand column will sell the currency depicted in the row at the top of the table.  
C = Bilateral central rate.  
B = Exchange rate at which the central bank of the country in the left hand column will buy the currency depicted in the row at the top of the table.  
(These buying and selling rates will not be operational. Reflecting a bilateral agreement between the German and Dutch monetary authorities, the following rates will continue to apply: Netherlands (D-Mark) selling 112.500, buying 110.100; Germany (Fl) selling 33.7705, buying 33.7500. Source: Bank of England)



# Balladur blames crisis on high German rates

By John Riddling in Paris

MR Edouard Balladur, the French prime minister, yesterday blamed high German interest rates for the currency crisis within the European exchange rate mechanism which has caused the strong link between the French franc and the D-Mark.

The prime minister said he had favoured a temporary withdrawal of the D-Mark from the ERM to ease the strains on the currency system but that the French government had agreed to a widening of the bands

within which ERM currencies can fluctuate to preserve the process of European integration.

Mr Balladur said the French government would remain committed to the stability of the franc. However, the French currency came under strong pressure on the foreign exchange markets.

Political commentators in Paris said that a sustained decline in the franc would seriously damage the government's credibility. "The strong franc has been at the centre of the government's policies," said

one Paris-based diplomat. "The easing of the D-Mark link represents a big risk."

Mr Balladur said that the French government had favoured a "holiday" for the D-Mark to allow Germany to absorb the impact of the costs of unification. But he expressed satisfaction with the compromise agreed in Brussels because it prevented a devaluation of the franc and ensured the survival of the ERM.

"The European Monetary System remains in working order with a

considerable loosening, but its founding principles remain in effect," the prime minister said.

Mr Balladur admitted that the negotiations in Brussels had been difficult.

Privately, French officials said that disputes with Germany had threatened to deadlock the negotiations on two occasions. But the French prime minister said that the Franco-German relationship "remains the basis for any European construction that is solid and durable".

Mr Edmond Alphandery, the economics minister, said that the decision to widen the margins for ERM currencies was "the best solution for the crisis in the ERM". He added that the franc "would support itself well" over the coming days.

Political commentators in Paris said that the weakening of the franc/D-Mark link could exacerbate divisions in the ruling RPR-UDF coalition.

Such concerns were eased slightly by a vote of support from Mr Jacques Chirac, head of the prime min-

ister's Gaullist RPR party. "I fully approve of the government's stance, notably in the monetary negotiations of the past few days," said Mr Chirac, who has previously displayed an equivocal stance on the strong franc policy.

The Paris stock market reacted enthusiastically to the reform of the ERM.

The CAC-40 index rose by more than 2 per cent to close at 2,129 on hopes that the easing of the currency link with Germany would allow interest rate cuts in France.

## Dollar to gain most from forex turmoil

ANALYSTS in New York expect the dollar to be a major beneficiary of the crisis in European currency markets.

Writes Patrick Harverson in New York. Although the dollar should remain weak against the Japanese Yen, it is likely to draw considerable strength from the ERM's troubles, and in particular from the prospect of lower European interest rates.

Mr Donald Straszheim, chief economist at Merrill Lynch, says: "What you'll see is a sharp decline in rates in all of Europe, and, accordingly, the dollar ought to strengthen."

Merrill Lynch expects the US currency to rise from its current value against the D-Mark of about DM1.71 to DM1.90 by the middle of next year.

Mr Straszheim is also one of several Wall Street economists who warn to the prospect of the ERM's demise.

"The whole development was long overdue - the system was really not sustainable. I am delighted to see the markets establishing exchange rates, and not the bureaucrats."

The dollar is also favoured by the likely future direction of US interest rates. Mr Alan Greenspan, the chairman of the Federal Reserve, the US central bank, recently warned financial markets that domestic interest rates would be raised if inflationary pressures reappear in the economy. A combination of higher US rates and lower European rates over the next year will lure even more funds into the dollar.

Part of the dollar's future, however, depends upon the performance of the US and European economies. Mr Joe Taylor, an analyst with Technical Data in New York, believes the US economy will not grow especially fast, "so the upward move in the dollar will be somewhat muted."

However, Mr John Lipsky, chief economist with Salomon Brothers in New York, believes that financial markets will over-estimate the impact of lower European interest rates on local economies.

"The European recovery will be gradual, and probably disappointing."

## Franc faible could fortify the French

By John Riddling and Alice Rawsthorn in Paris

FRENCH politicians and industrialists were yesterday grappling with a new set of risks and rewards as the government's franc fort policy of maintaining a stable currency looked close to collapse.

The widening of fluctuation bands for the French currency from 2.25 per cent to 15 per cent leaves the franc more than ever vulnerable to the foreign exchange markets. But by decoupling the franc from its rigid D-Mark parity, the move may also provide the scope for the interest rate cuts that are necessary to revive the economy and sharpen the competitive edge of French exporters.

The foreign exchange markets yesterday seemed to be pointing towards a franc faible (weak franc). However, most economists cautioned against a snap judgment on the fate of the franc.

"Of course we can expect strong pressure in the short term," said Ms Marie Owens-Thomson, international economist at Midland Global Markets. "But once the market finds its feet the franc should stabilise at between FF3.50 and FF3.55 to the D-Mark."

The consensus view is that there is little prospect of the franc depreciating by the full amount permitted by its more flexible fluctuation band.

Political considerations will encourage the government to limit the fall in the franc. The strong franc has become an

important symbol of French identity," says one Paris-based diplomat. Mr Edouard Balladur's government has committed itself to maintaining the stability of the currency and its parity with the D-Mark.

But the government is also determined to reduce interest rates to stimulate the economy. "Ultimately, the French people are much more concerned by the prospect of unemployment than by the stability of the franc," said Mr Dominique Molle, deputy director of the French Institute for International Relations. "There will be a lot of Frenchmen who think a weaker franc may be bad for our pride but good for our economy."

Yesterday the government played down the prospects of rapid cuts in interest rates, emphasising instead the need to keep the currency stable. "The absolute priority is the stability of the currency both internally and externally," said Mr Edmond Alphandery, the French economy minister. But reduced borrowing rates are clearly on the agenda.

"We want to open the way to interest rate cuts by unblocking the EMS (European Monetary System) constraint," said Mr Alain Madelin, minister for small business, who advocated floating the franc in December last year.

According to Mr Madelin, there was no contradiction between maintaining the value of the franc and reducing interest rates. He argued that the assaults on the franc during

the ERM crisis were not a result of the fundamentals of the French economy and that the stimulatory effects of interest rate cuts would restore confidence in the foreign exchange markets. He believed it should be possible to reduce intervention rates - which set the floor for money market interest rates - from the current level of 6.75 per cent to about 4 per cent.

Economists are largely in agreement. "The fundamentals are strong," said Mr Jean-Paul Bédier, chief economist at Crédit Lyonnais in Paris. "Inflation is half the rate it is in Germany and exporters will be given a boost by any depreciation."

French companies were almost universally positive about the prospect of lower interest rates. Although most large companies have placed the bulk of their debt at fixed interest rates, many have faced steep bills for the interest payments on their short-term borrowings, such as bank overdrafts, at floating rates. Small companies tend to have less sophisticated financial arrangements and have been badly affected by high interest rates.

"There is no question that lower rates will ease the financial pressure on the corporate sector," said Mr David Harrington, French market strategist at James Capel in Paris. "And they should eventually help to restore confidence in the domestic economy."

Meanwhile, any weakening



Currency dealers and brokers gesture in Paris yesterday as the French franc continued its slide against the D-Mark

in the franc augurs well for exporters. "It's good news for us," said Mr Claude Taittinger, chairman of Taittinger, the French champagne house which relies on exports for two thirds of turnover.

Other companies have also suffered. The total value of French exports fell by 12 per cent to FF279bn (\$31.8bn) in

the first quarter of this year, according to the Customs Office. The car industry suffered a 20 per cent fall in foreign sales during that period.

French exporters cannot expect to see an improvement across the board, given that a number of European currencies are likely to fall with the franc. However they ought to

become more competitive in stronger currency markets such as Germany, the UK and US.

One of the main arguments in favour of the franc fort policy was that it created a stable currency for exporters. But most companies yesterday seemed willing to view the risk of instability as a cheap price

to pay for greater competitiveness in their export markets.

"The only real problem would be if the currency markets became very unstable," said Mr Taittinger. "After all, we want to concentrate on making champagne, not on gambling on exchange rates. We don't want the franc to become a yo-yo."

## Bundesbank gets room for manoeuvre

By Christopher Parkes in Frankfurt

MR Helmut Schlesinger, Bundesbank president, came away from Brussels this weekend with parting gifts of inestimable worth for his successor, Mr Hans Tietmeyer.

The German central bank had been freed for the foreseeable future from its obligations to spend billions of D-Marks in support of weaker European exchange rate mechanism currencies, he said in Bonn yesterday.

He might have added that, for a while at least, the bank could get on with its main job of looking after the D-Mark and German monetary policy without harassment from other countries for rapid lowering of interest rates. But Mr Schlesinger is not given to immoderate language.

In keeping with his mild manner, Mr Schlesinger's main gift to Mr Tietmeyer came modestly packaged: "Naturally, we have also gained rather more room for manoeuvre for our own policies," he said.

In keeping with the bank's tradition for Delphic utterances, this is open to interpretation. Most importantly, it raises the question of how Mr Tietmeyer and his central council colleagues use their room for manoeuvre.

Mr Peter Lang, an economist at Bayerische Vereinsbank, believes the relief could prompt the Bundesbank to proceed even more cautiously than in the recent past with its snail's-pace downward shift with the short-term discount lending rate.

Recent indicators - not least an inflation rate more than double the Bundesbank's target of 2 per cent, and the inevitable expansionary impact on money supply of last week's DM60bn (£23bn) on ERM intervention - suggest the bank will feel there is no sense of urgency. With the external pressure off, there will be even less.

In the recovery stage of the last recession, the German central bank slashed its discount

rate by 3.5 percentage points between August 1982 and March the following year. So far in the current slump, it has taken since last September to cut the effective "floor" lending rate by just 1.5 points to 6.75 per cent.

Before last Thursday's Bundesbank council meeting, expectations had been growing that the process would be speeded up.

Pro-cut observers had noted that the danger of a resurgence of inflation had been receding fast. The underlying year-on-year rate was below 3 per cent by the Bundesbank's own reckoning. Annualised money supply growth was tending to ease back from above 7 per cent to the bank's target range of 4.5 per cent to 6.5 per cent.

Then came the disappointment of a token drop in the penalty Lombard lending rate, a new ERM crisis, and renewed criticism of the Bundesbank's lack of sensitivity to its European partners.

Mr Dietrich Beier, chief economist at Berliner Bank, yesterday defended the Frankfurt monetarists. If the outside world wanted to blame the Bundesbank for the breakdown of the EMS, then "it can also blame Germany for unification."

Few, least of all German economists, appreciated the scale of the difficulties with unification at the time. But it is clear that while the rest of the industrialised world is struggling with a "normal" cyclical recession, the slump in Germany has been compounded by the cost of making good structural distortions incurred by unification.

The Bundesbank will use some of the time and room it has for manoeuvre to continue to chip away, at its own pace, at interest rates. But it can also be coaxed to crack the whip over federal, regional and local governments to keep the spending cuts coming.

Little wonder Mr Schlesinger yesterday declared himself "extraordinarily grateful" to Bonn for taking the initiative in calling for last weekend's most fruitful meeting.

## German industry braces for stronger D-Mark

By Christopher Parkes in Frankfurt and Ariane Genillard in Bonn

GERMAN INDUSTRY expects to take one step backward, followed, possibly, by two steps forward as a result of the weekend shakeout of the European monetary system.

But yesterday, labouring under the twin burdens of recession and restructuring, it was more concerned with the first stage of the process than the longer-term possibilities.

Daimler-Benz, for example, which generates well over 20 per cent of its sales among its European neighbours, warned of a marked increase in exchange rate risks for international groups like itself. Any revaluation of the D-Mark against EMS currencies would tend to depress the group's profit position, it said.

The VDMA engineering industry association welcomed weekend efforts to save the system from complete collapse but complained that the loosening of fluctuation bands had deprived its members of a useful basis for calculations.

"We need stable exchange rates because we have long development times," a spokesman said.

Economists expected an early but modest effective revaluation of the D-Mark against the French franc, which would damage German exporters' competitiveness initially. Some 17 per cent of all German sales abroad go to France.

However, economists suggested that would eventually be offset by increased demand as customer countries spurred economic growth by reducing their domestic interest rates.

At the same time, the reduction in German import prices, implied by a D-Mark with improved buying power, could encourage the Bundesbank to continue cutting its rates, and thus bolster internal demand.

Most eyes were on France, where Mr Dietrich Beier, chief economist of the Berliner Bank expected a devaluation of "5 per cent but not more." This is the engineering industry's most important single export market, accounting last year for sales of DM12bn (£4.6bn), 10.3 per cent of the sector's business outside Germany.

The French industry was also highly competitive, and with a greater relative price advantage, might win market share in Germany, the spokes-

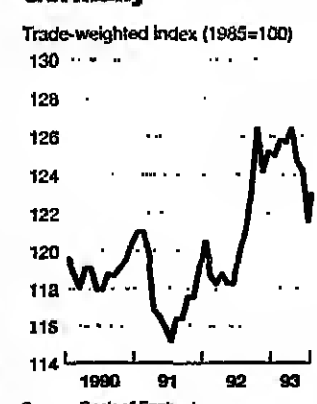
man added. Italian manufacturers, too, could benefit from a D-Mark revaluation.

Mr Bodo Böttcher, head of the ZVEI electrical and electronics industry association, said if his members wanted to hold on to their European market shares, they could only do it at the cost of reduced profits.

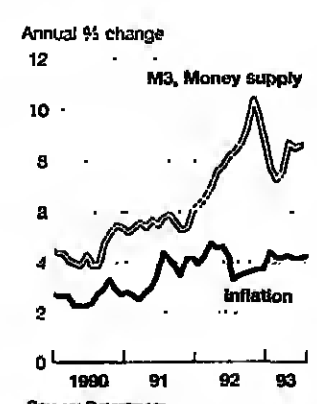
The need for hedging measures to cover currency risks would also increase costs.

The VDA, representing motor vehicle makers, warned of "considerable injury" to sales prospects in France, which absorbs 11 per cent

### Germany



Source: Bank of England



Source: Datastream

further revaluation of the D-Mark are by no means unavoidable."

Mr Michael Fuchs, representing wholesalers and exporters, said he did not expect the pressure on the French franc to last long. "Given the weaknesses in the German economy at present, we could even see the exchange rate reversing in favour of the franc in two or three months," he said.

Bankers, however, were more sceptical. Mr Eberhard Martin, president of the federal banking association, said the widening of the ERM fluctuation corridors was a "second best" solution. Realignments, in accordance with the rules of the EMS would have been better, but this solution had been avoided because in many cases it would have meant a devaluation, he said in a radio interview.

A formal statement from his association noted the EMS had "above all, not collapsed." But the existence of the EMS could only be guaranteed if all members persisted with policies aimed at maintaining monetary stability and consolidating budgets. Only then would plans for European economic and monetary union have a realistic chance.

## Stalwart Spain suffers sense of 'betrayal'

By Peter Bruce in Madrid

AT SOME point during the crisis talks on the future of the European exchange rate mechanism in Brussels over the weekend, the Spanish representatives threw six years of hard monetary battle to the wind and asked for the system to be suspended.

The anger, frustration and desperation of a strongly pro-European government which has had to swallow three devaluations since last September (one in the middle of a general election) was being openly spat out over the negotiating table.

Perhaps the call for a suspension of the system was just a threat but it was, for Spain, an extreme one. Spain has traditionally been one of the most enthusiastic supporters of political and economic union.

But more than one Spanish minister has in the past expressed dismay at the sup-

port given to the French franc by the Bundesbank while the peseta has been left to suffer at the hands of speculators.

By late last week, with the peseta again under attack, the Spanish were showing clear signs of discontent.

"We don't want to leave the system but if we do they might as well stop calling it European"

Madrid has been able to use the discipline imposed by the former tight fluctuation bands in the ERM to attract billions of dollars of new investment. At the end of last year the country had external debts of about \$78bn and its economic managers see every tumble of the peseta (now trading some

33 per cent lower against the D-mark than it was a year ago) as a new rung on the repayment treadmill.

"We need capital to develop," says the boss of one of the country's biggest companies. "We have to keep the cost of that capital down as low as possible."

Not all the voices reaching Mr González say this. While most continue to press for fiscal virtue next year and for only slow cuts in interest rates, some cabinet colleagues want growth even at the expense of inflation.

"What the decisions in Brussels (widening the currency fluctuation bands) mean for Spain is that we have delinked from the anti-inflationary credibility of the Bundesbank," says Mr Jaime de Pinies, chief of research at the merchant bank, Santander Investment.

"The Spanish monetary authority will now have to go and earn that credibility

on its own."

That is the one side of the argument - that interest rates should fall only slowly and certainly not at today's regular Bank of Spain auction of certificates of deposit and the 1994 budget, due in late September, should be restrictive and credible. Public spending cuts would deepen the recession but could rapidly improve both the current account and public sector deficits.

Mr González has already promised big cuts and, although he is also trying to sweet-talk the trades unions into signing a long-term wages deal, he has refused to exclude social services from fiscal surgery in next year's budget. The intention is good but this year's budget was also supposed to be tight and spending is currently more than Pta1,000bn (£4.6bn) over target.

Then there is the other argument. If interest rates fall sharply, the dramatic growth

in unemployment - currently a record 22.2 per cent - might be brought to a quick stop. Mr José Borrell, the minister of public works, is said to favour growth over the fight against inflation and is a favourite of Mr González.

Whatever happens Mr González will have little trouble imposing his will. Since winning the general election on June 6, he has cleared his cabinet of left-wingers and placed his trusted and combative inner finance minister, Mr Carlos Solchaga, in charge of the parliamentary party.

He has also replaced his left-wing chief of staff with the former chief of the revenue service, Mr Antonio Zabala.

The consensus is that the cautious voices will prevail and that Mr González will agree to bring down interest rates slowly and not rush for growth. For now, he is his own man.



## NEWS: INTERNATIONAL

Companies make concessions to secure worker flexibility

## Steel unions to have board seats in US

By Richard Waters in New York

HALF the steel workers in the US will have representatives on company boards in return for more flexible working practices, if deals at two of the biggest steel companies are ratified.

Bethlehem Steel, the country's second largest producer after USX and National Steel, the fourth highest, reached initial agreement with the United Steelworkers of America over the weekend. These new, six-year deals would double the length of previous labour agreements in the industry.

The agreements are similar to those already completed between the union and two other producers, Inland and LTV. These have been ratified.

The new accords in all would cover some \$9,000 of the country's 100,000 steelworkers.

Under both the Bethlehem and National deals, to be ratified within coming weeks, union members would be able to appoint a representative to the board and participate in joint committees with management "at all levels of their company, right down to the shop floor," the union said. These committees, known as "local boards," would participate in all decisions affecting their area of work, including capital

spending and planning, the union said. Pension benefits would also be raised and health care benefits frozen. The union would be given a lien on some of the companies' assets to assure these benefits were maintained, the union said.

In return, steelworkers would agree to work more flexibly and be trained in a wider range of skills to make this possible. Also, they would receive no pay rise until August 1995 when the average hourly wage of \$13.59 (\$23.13) would be raised by 50 cents. They would also receive up to \$3,000 each in bonuses, \$1,000 of which to be linked to company profitability. The wage deal would be subject to renegotiation after only three years.

Bethlehem refused to comment on the deal, before it is put to the workers' vote, beyond saying: "It assures an uninterrupted supply of steel to our customers for six years. There are provisions which allow an increase in productivity, and which will result in a closer partnership with our staff."

Preliminary discussions between the union and USX broke down last year. The current USX labour agreement is not due to expire until January.

## Tutu seeks foreign force to restore peace in S Africa

ARCHBISHOP Desmond Tutu yesterday called for foreign peacekeepers in South Africa as the body count from one of the bloodiest weekends in the transition from apartheid to democracy neared 100, Renter reports from Johannesburg.

A police spokeswoman said 89 people were killed between Friday night and yesterday morning in factional fighting which raged through the Johannesburg townships of Tembisa, Tokoza, Katlehong and Vosloorus.

Police in Natal province said six people were killed over the weekend, bringing to almost 600 the death toll in the month since democracy negotiators named April 27 as the date for the first non-racial election. Archbishop Tutu, a Nobel Peace Prize winner, said the slaughter "demonstrated beyond doubt" that South Africans were incapable of restoring law and order themselves. "We need to appeal to the international community to send in, as a matter of urgency, a corps of police officers experienced in handling civil turmoil," he added.

Negotiators at democracy talks outside Johannesburg expressed horror at the slaughter, which threatens to wreck progress to democracy.

Mr Nelson Mandela's African National Congress urged the conference to agree to form a joint peacekeeping force, representing black and white South African political groups.

"We should have a joint peacekeeping force, to be installed within a matter of weeks," said Mr Cyril Ramaphosa, ANC chief negotiator.

He said the ANC wanted to discuss Archbishop Tutu's plan with him. The more radical Pan Africanist Congress said it had been advocating international involvement for a long time.

Black parties distrust the white-led South African police, despite its claims of impartiality in township wars that have claimed more than 9,000 lives in three years.

Rail authorities announced yesterday they were temporarily suspending trains serving the volatile townships east of Johannesburg, to protect commuters and property.

Political leaders expressed frustration and helplessness over the second most bloody month of fighting since President F W de Klerk lifted apartheid in early 1990.

## Decision time in Mideast 'fast approaching'

By Mark Nicholson in Cairo and Julian O'Connell in Jerusalem

MR WARREN Christopher, US secretary of state, yesterday said that the violence in southern Lebanon last week had illustrated the price of failure to make progress in the Middle East peace talks. He warned the participants that "decision time is rapidly approaching".

Speaking in Alexandria after a two-hour meeting with President Hosni Mubarak of Egypt, the secretary of state said the intense Israeli shelling of southern Lebanon and Hizbollah's raids into northern Israel had served as a "reminder to all parties that the Arab-Israeli negotiations cannot quickly deteriorate if we do not

take this moment for peacemaking".

Mr Christopher's warning appears designed to put pressure on all participants to the talks - Israel, Syria, Jordan, Lebanon and the Palestinians - not to allow the Israeli bombardment to preclude immediate movement in the deadlocked peace talks. In Jerusalem, however, both Israeli and Palestinian officials were pessimistic about chances of a breakthrough in their negotiations during the secretary of state's visit. Several members of the Palestinian delegation to the peace talks, including Mr Haider Abdel Sha'n and the People's party, said they would boycott Mr Christopher's visit because the US continued to back unacceptable Israeli proposals.

Even those Palestinians who plan to meet him today said they did not expect a breakthrough on the two fundamental obstacles: Palestinian control over Arab East Jerusalem and territorial jurisdiction over the settlements in the Israeli-occupied territories during an interim period of self-rule.

For its part, Israel is urging Mr Christopher to concentrate on the Syrian track of the peace process, which focuses on prospects for an Israeli withdrawal from the occupied Golan Heights. Israeli officials yesterday continued to promote the view that the crisis last week could be turned into an opportunity to focus on stalled talks over the Golan Heights.

Mr Christopher said yesterday that, as "partner" in the talks, the US was "prepared to stay the course".

The Lebanese government, meanwhile, yesterday decided to send troops from the Lebanese army into control of the Lebanese Interim Force in Lebanon. Lebanese officials said the move was designed to "preserve people's security" in villages along the north of Israel's self-declared "security zone" inside Lebanon.

The deployment appears to be a gesture to bolster the "understanding" which followed a US-brokered ceasefire in the Israeli bombardment on Saturday and in which, despite its protestations to the contrary, Hizbollah appears to have undertaken to stop firing Katyusha rockets into northern Israel.

However, the movement of Lebanese troops will not constitute an attempt to disarm or contain Hizbollah, officials in Beirut said.

Mr Rafik al-Hariri, Lebanon's prime minister, has repeatedly said he cannot act against what he calls the "Lebanese resistance" while Israel retains a presence inside Lebanon's borders.

Israel said that more of the 400 Palestinian deportees stranded in Lebanon no man's land for eight months would be eligible to return in September, taking the number of deportees to have returned to around 200. Renter reports from Jerusalem.



TENS OF THOUSANDS of Romanian coal miners (picture above) began an indefinite strike yesterday after the government had refused to give in to demands for big pay rises, Virginia Marsh reports from Bucharest.

All but a few hundred of the 43,000 miners in the Jiu Valley, which produces more than 90 per cent of the country's

black coal, joined the strike, the industry ministry said.

The miners, who led anti-reform riots in Bucharest in 1990 and 1991, are demanding an average monthly wage equivalent to nearly \$400 (\$268.40), four times the national average, and lower income tax.

Mr Nicolae Vacaroiu, prime minister, said the state did not have the funds to

meet the demands. It would be unfair to approve "over the top" pay awards, given that miners already earned more than 90 per cent of the population.

Mr Vacaroiu, who met miners' leaders last week, refused to go to the Jiu Valley to continue negotiations after unions had failed to appear for scheduled talks in Bucharest.

## Killings highlight Russia conflict

By John Lloyd in Moscow

THE MURDER of two senior Russian officials, one of them a deputy prime minister, has brought home to the Russian public the increasingly bitter struggle between two ethnic groups in the north Caucasian region.

Mr Viktor Polyanchko, temporary governor of the areas of Ingushetia and neighbouring North Ossetia, was murdered when gunmen fired on his car late on Sunday afternoon.

Major General Anatoly Koretsky, commander of the Russian forces in the area, was also killed.

Mr Sergei Shakhrai, deputy Russian prime minister for nationalities, and General Pavel Grachev, defence minister, immediately flew to the Ossetian capital of Vladikavkaz for talks with local leaders.

Mr Polyanchko, a former senior communist official in Azerbaijan whose appointment as special governor of the

region had sparked controversy among democrats in Russia, had emergency powers to rule in the region as increasingly violent conflict followed efforts by Ingush families deported from their homes to resettle in areas of South Ossetia.

A state of emergency was declared last week by President Boris Yeltsin, confirmed by parliament on Saturday. Thousands of refugees from both sides have fled their homes in the wake of what Mr

Ruslan Aushev, president of Ingushetia, has called "planned ethnic cleansing" of Ingushes.

Both sides blame the other for the murders. The press centre of the North Ossetian government claimed the area where Mr Polyanchko was killed was controlled by Ingush forces.

The Ingush president's press secretary said last night that "the blood of these officials are on the hands of those who tried to stop the Ingush returning to their traditional homes".

## EBRD urges reform in banking

By Gillian Tett

RADICAL reform of the banking sector must be a priority for east European governments and western donors seeking to implement economic change in former Communist countries, Mr Mario Sarcinelli, vice-president of the European Bank for Reconstruction and Development, said yesterday.

Commenting on the EBRD's latest quarterly review, which showed how recession in the west and last year's drought had contributed to a deteriorating foreign trade balance in most of the region, Mr Sarcinelli said banking structures were ill-equipped to finance the reform process.

Hungary, Poland and the Czech and Slovak republics had gone furthest in implementing banking reforms, but most east European banks still lacked western-style auditing practices, had little understanding of risk control, and were burdened by huge levels of bad debt, he said.

The EBRD declined to issue figures showing the scale of the problem, claiming the statistics were too unreliable and politically sensitive. But bank officials estimate that bad debts represent more than 60 per cent of the balance sheet in some of the largest east European banks.

Mr John Fleming, chief economist of the EBRD, added that most east European countries still lacked effective bankruptcy

laws so enterprises were continuing to trade and receive bank funding, although they were technically insolvent. "There is clear evidence of a big build-up in many countries of inter-enterprise arrears."

The banks now need recapitalisation and the introduction of competition, ideally through a process of privatisation. The EBRD plans to increase its stake in east European banks, such as Poland's recently privatised Wlokiopolski Bank Kredytowy in which the EBRD has become a majority shareholder.

It also plans to increase its provision of credits through local financial intermediaries, in an effort to spread credit risks and boost local financial sectors.

### NEWS IN BRIEF

## Former Eni chief arrested in Rome

MR Alberto Grotti, former deputy chairman of Italy's state-owned Eni energy and chemicals group, was arrested in Rome yesterday on the instructions of Milan magistrates investigating political corruption, writes Haig Simonian in Milan.

Mr Grotti's arrest, on allegations of illegal political funding, is the latest in a string of detentions linked to investigations into the former Enimont chemicals joint venture between Eni and Montedison, the chemicals arm of the Ferruzzi group.

Last week magistrates warned eight senior politicians and former party leaders they were under investigation for alleged political corruption involving Enimont. According to leaked testimony from two former Ferruzzi executives, the company paid about L135bn (\$56m) in kickbacks to ensure favourable treatment when Enimont was established and when it was wound up in late 1990.

## Egyptian oil investment

The International Egyptian Oil Company (IEOC), a subsidiary of Agip of Italy, will invest \$2.3bn (\$1.54bn) in oil and gas development projects in Egypt over the next four years, the Middle East Economic Survey (Mees) reported yesterday. Renter reports from Nicosia.

The specialist newsletter quoted Mr Hamdi El-Banbi, Egyptian oil minister, as saying the new investments would be used for maintaining output levels from existing fields and developing new finds, especially gas.

Mees said some of the main oil producing fields, operated by Petrobel, a joint venture between IEOC and the Egyptian General Petroleum Corporation, were ageing and needed maintenance work to increase recovery yields.

Mees also reported that the return of Iraq to world oil markets would probably be delayed because of Baghdad's attempts to link oil talks with UN weapons negotiations. However, Iraq's resumption of oil exports was not totally ruled out, it added.

## Apple in BellSouth deal

Apple Computer said it had signed a deal with BellSouth Corp, a mobile systems group to offer wireless communications products and services based on Apple's Newton technology, Renter reports from Atlanta.

Apple said BellSouth would provide wireless messaging through its paging network for Newton-based products.

In addition, BellSouth said it intended to work with Apple to "investigate market opportunities for a series of wireless communications products and services based on Newton".

Separately, Apple said it signed a deal with Sprint Corp as primary contractor and British Telecom North America Inc to provide network carrier service in North America for Apple's future on-line information services. Under the Sprint-BT deal the companies would provide, in the US and Canada, a key component of the new services being developed by Apple Online Services.

## Tanzania aligns currency

Tanzania harmonised its exchange rates yesterday bringing the central bank's "official" local currency rates into line with market-determined rates offered by commercial banks, Renter reports from Dar es Salaam.

A Bank of Tanzania statement said the official rate, previously used for a range of government imports, western aid and loans such as oil, would conform with market rates used by the private sector since last year.

## Angolan mining hit

Angola's state diamond company Endimasa said the occupation of diamond areas in the north-east by UNITA rebels had cost it 50 per cent of production in the key Lunda Norte province, Renter reports from Luanda.

Company officials, quoted by the official news agency Angop, said only 20,000 carats were being produced monthly in the province, half the level before UNITA took over and sabotaged important mining areas.

## Taiwan charts uncertain course over China

TENSIONS are emerging between the Mainland Affairs Council, responsible for charting Taiwan's policy towards Beijing, and the unofficial group established to conduct negotiations with China.

"We have our foot on the brake, while the Straits Exchange Foundation has its on the accelerator," says Mr William Li, director of the MAC.

His comment reflects broader divisions in the community - between business which, by and large, wants closer ties forged across the Taiwan Strait and political groups, such as the opposition Democratic Progressive party, which counsel against a further slide into China's embrace.

Just a few months after historic talks in Singapore in April between Mr CF Koo, the millionaire head of the SEF, and his Chinese counterpart, Mr Wang Daohan of the Association for Relations Across the Taiwan Strait (ARATS), Taiwan appears like a startled rabbit caught in a car's headlights, uncertain which way to move.

For the moment, Taipei is unlikely to make further gestures in the direction of Beijing, beyond maintaining the dialogue started in April.

## Divisions widen between business seeking closer ties with the mainland and cautious political groups, writes Tony Walker

Mr Jason Hu, chief government spokesman, says a Beijing proposal that Taiwan allow direct trade and travel should be treated with caution. "These are some of the final chips in our hands," he says. "Why play them now?"

Business, on the other hand, is becoming restless, asking why it should be subjected to the added cost and inconvenience of channelling its dealings with the mainland through third parties, namely Hong Kong. The SEF, set up in February 1991 as the unofficial intermediary between Beijing and Taipei, has neither recognised the other, has become a conduit for these concerns.

Mr Ching Ping Lee, SEF deputy director, notes that since an absolute ban on visits by Taiwanese to the mainland was lifted in November 1987, trade has soared. Exports are expected to total US\$8bn (\$8bn) this year, and direct utilised investment exceeds US\$2bn, with many times that figure committed to new projects. Mr Ching estimates that about 12,000 Taiwanese companies are represented in China.

He criticises the MAC's "go-slow policy" as impractical, and says his body favours more frequent contact with Beijing and at a higher level. "Our aim is to reduce tensions and build up mutual trust," says Mr Ching, who visited the Chinese capital in June for talks following the Wang-Koo Singapore meeting.

Taiwan's President Lee Teng-hui set the tone for the latest phase in an intriguing relationship when he said in May that it was important to maintain peace in the Taiwan Strait, encourage close interaction across the divide and build mutual trust. "To go from mutual trust to mutual recognition that each government is a legitimate entity would be a major advance," he added.

Beijing, for its part, seems anxious to force last year brought the independence-committed Democratic Progressive party within sight of gaining power in a democratising Taiwan, the Chinese have accelerated efforts to engage the Taiwanese in discussions about the future.

Opinion polls, which show that more than 80 per cent of Taiwanese favour independence from the mainland (up from the usual 10-12 per cent), appear to have concentrated minds in Beijing, where leaders had traditionally maintained there was plenty of time to bring about reunification. For the moment, it seems, the political tide in Taiwan is running against Beijing, although the meshing of economies across the Taiwan Strait provides a powerful countervailing force.

Officials of the DPP, which gained 51 out of 161 seats in Taiwan's legislature with 31 per cent of the popular vote in the recent election, are adamant reunification is out of the question. They want a plebiscite to allow Taiwanese to pronounce on their future.

Mr Chiu Jen, the DPP's deputy secretary-general, cautions against the Wang-Koo talks, "not because China has a bad attitude, but simply because no consensus exists in Taiwan in support of those talks".

Mr Chiu is correct when he talks about lack of consensus within the ruling Kuomintang, which clings to the notion that its remains the legitimate government of all China. Some KMT members, however, make little secret of their sympathies for the independence option espoused by the DPP.

barring Taipei's entry to international organisations, Taiwan is presently engaged in a "noisy reconnaissance," as one western official put it, to gain entry to the United Nations.

The MAC and other elements of Taiwan's propaganda machine have taken to issuing warnings about the dangers to the local economy of becoming too dependent on the mainland.

A recent MAC publication warned that "with the rapid increase in Taiwan enterprises investing across the Taiwan straits... the threat that the local industrial sector will be hollowed out looms large." It cited a study which showed that, in 1992, manufacturing accounted for 33.7 per cent of GDP while the service sector's share was 46.82 per cent. By the second quarter of 1992, manufacturing had shrunk to 33.66 per cent against 54 per cent for services.

The propaganda also falls back on the perceived evils of communism. "Communism Chinese leaders love to boast that what they practise on the mainland is socialism with Chinese characteristics," wrote one commentator recently. "We in Taiwan sincerely hope there will be more and more Chinese characteristics, and less and less socialism on the Chinese mainland."

### MARKET TESTING Competing for Quality

The Home Office is conducting a market test of the typing services provided for its 3700 staff located in central London offices. Typed outputs in 1992 were 518,000 Treasury Typing Units (TTUs), primarily copy typing, but with some audio. Some work will be required to be completed and returned to authors within a maximum period of 2-4 hours but the majority of text is required within 24-48 hours.

Commercial organisations with a proven track record in this field who wish to be considered for inclusion on the tender list should write to the address below to register their interest. All companies registering an interest will be provided with additional background information and be required to complete a comprehensive pre-qualification questionnaire.

It is intended that an Invitation To Tender package, including a detailed specification will be issued during September to those companies placed on a short list. Notification of interest must be received by 14 August 1993. Late applications may not be accepted.

Any companies who have previously responded to general enquiries for this work or who have expressed interest by other means are required to re-confirm their interest by response to this advertisement.

All correspondence should be addressed to: Meg Jeffries, Home Office Market Testing Unit, Room 9/10, Riverwalk House, 157-161 Millbank, London SW1P 4RT. Tel: 017 217 3758.

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## Car sales hit as Japanese cut spending

By Robert Thomson in Tokyo

NEW CAR sales in Japan in July slipped 10.8 per cent from those of a year earlier, while sales of imported vehicles were down 11.3 per cent, reflecting the lack of consumer confidence in an economy still apparently in decline.

July is traditionally a good month for car dealers, as it comes just after workers have received bonuses and just before annual summer holidays, but the Japan Automobile Dealers' Association said sales had fallen by more than 10 per cent for four consecutive months. Except for March this year, when they rose 1.7 per cent, sales have been down year-on-year every month since July 1992.

The period of double-digit drops is the longest since 1974, and also reflects the curbing of corporate capital spending. Lorry sales fell 9.3 per cent, while those of buses fell 11.6 per cent.

Jada officials said the recent

appreciation of the yen had further bruised consumer confidence, which has been weakened by a cut in new jobs and in overtime work.

Meanwhile, the Co-operative Credit Purchasing Company, established by Japanese banks this year to buy their non-performing property loans, announced that it had purchased 14 loans with a face value of ¥94.2bn (\$605.7m) for a total of ¥36.1bn during July.

The CCPC is paying less for the collateral rights it purchases, suggesting that property prices are still falling and that banks are bringing in loans of lower quality. By selling the loan rights to the CCPC, banks are able to write off their exposure.

But the CCPC is having difficulty fulfilling its stated aim of putting a floor under property prices by announcing details of collateral sales. Of the ¥502.58bn in outstanding loans purchased by the agency, only ¥990m has so far been recovered.

## Hard landing in sight for Japan-US air feud

Michio Nakamoto previews aviation rights talks seen as threat by Tokyo carriers

MR Susumu Yamaji has been busy for the past year on a personal mission to save his company and the Japanese airline industry from what he sees as the adverse effects of a US-Japan aviation accord.

As the chairman of Japan Air Lines, the country's main international carrier, Mr Yamaji has travelled widely and used his contacts and influence to deliver his message that the bilateral accord places Japanese carriers at an unfair disadvantage.

His efforts will be put to the test this week when negotiators from the two countries meet in Washington for a second round of talks that will seek resolution of a long-festering dispute.

On the agenda are two thorny items: the number of landing slots Japan gives to US carriers at the new Kansai International Airport and the use by US carriers of their "beyond rights" - the right to fly from the US to Japan and beyond to a third country.

At stake is a large and lucrative market for international air travel to and from Japan, in particular to the Asian Pacific region, but possibly including travel to and from Europe in the future.

The US wants a much larger number of landing slots at Kansai airport than Japan is prepared to give. It also believes that the beyond rights US carriers are entitled to under a bilateral aviation accord should not be restricted.

**At stake is a large and lucrative market for air travel to and from Japan**

The aviation accord, which was agreed in 1982, gives each side the right, among others, to fly over the other's territory and to carry their nationals to the other country. A supplementary right provides for the carriers of one country to fly to the other country and from there to a third destination. It is this one that the Japanese want restricting.

There is already an oversupply of air travel services that is hurting the profitability of Japanese airlines, Japanese aviation authorities say. As primary carriers, domestic airlines should have first claim over flights between Japan and

other countries. US carriers flying mostly Japanese travelers out of Japan are poaching, they say.

Furthermore, by pricing their flights at a lower level than that which Japanese carriers can afford to offer, US carriers are threatening to put Japanese airlines out of business.

Based on that view, the Japanese authorities tried to get Northwest Airlines to limit the number of passengers getting on at Osaka in its New York-Osaka-Sydney flights to less than 50 per cent of the total.

They then rejected a United Airlines application to extend its New York-to-Tokyo flights to Sydney, prompting United to file a complaint with the US transport department. Threats of sanctions and counter-sanctions were exchanged across the Pacific.

Both sides have refrained from taking further action that could raise tensions but the first bilateral meeting last October to tackle the issue ended inconclusively. For the US industry, which is losing money in its domestic market, the market centred on Japan is enticing, given that Asia is one of the few growth markets in world air travel and the US carriers are more cost-compet-



Susumu Yamaji: mission to save industry from accord's effects

For that, it needs an aviation accord modelled on the Bermuda 2 agreement between the US and the UK which restricts capacity and provides for a balanced sharing of that capacity, Mr Yamaji believes.

Protection for the Japanese airline industry would not benefit Japanese airline users, however. By providing Japanese airlines with a regulated market in which competition is kept to a minimum, the Japanese authorities would be allowing them to charge high prices and make profits without taking fundamental steps to improve their international competitiveness, according to Mr Takatoshi Ito, professor of economics at Hitotsubashi University.

"What has ruined the Japanese airline industry is the over-protective administration of the ministry of transport... and the dependence of the management of airline companies on regulation," Mr Ito wrote in a recent magazine article.

For Japan to ask that US-Japan market share in air traffic be pre-established in a bilateral aviation accord, is as much a results-oriented policy as the market share targets proposed by the US, which Japan so firmly rejects, he says.

## Moslems blamed for Thai arson attacks

By Victor Mallet in Bangkok

THE THAI army has blamed Moslem separatists for a series of arson attacks on Sunday, in which 33 schools in southern Thailand were set on fire.

No one was hurt in the fires, which were lit before dawn, but Thai newspapers said at least 12 of the schools were destroyed or badly damaged. A local government office and the homes of teachers and an official were also hit.

Gen Kitti Rattanasakya, the regional military commander, accused a hardline faction of the Pattani United Liberation Organisation (PULO) of having set the fires.

"I was stunned," Gen Kitti told local journalists. "I had just told the prime minister that the situation in the region was improving."

Thai Moslems, concentrated in the south, make up only about 4 per cent of the country's population. Religious freedom is guaranteed by the constitution, but Moslems frequently complain about the influence of the Buddhist majority, especially in education.

PULO has campaigned sporadically for the secession of Thailand's five southernmost provinces, and was blamed for a bomb explosion at Hat Yai railway station last year in which three people were killed. Several schools were set alight on a general election day in September.

The latest incidents could strain relations between Thailand and Malaysia, as Thai officials say that PULO activists receive support from Moslem fundamentalists in Kelantan on the Malaysian side of the frontier.

Last month, however, Thailand, Indonesia and Malaysia launched a "growth triangle" designed to increase cross-border trade and investment between southern Thailand, northern Sumatra in Indonesia, and the northern part of the Malaysian peninsula.

## Singapore restricts Economist circulation

By Victor Mallet

SINGAPORE yesterday imposed restrictions on the circulation of The Economist magazine, the latest in a series of moves against the media by the island's notoriously sensitive government.

In a statement, the Ministry of Information and The Arts said the government was restricting the circulation of The Economist, which is 50 per cent owned by the Financial Times, to its current level of 7,500 and would reduce it progressively unless the magazine published a letter relating to a story about Singapore which appeared in June.

The story concerned the trial of five people accused of breaking secrecy legislation by publishing a government estimate of second quarter gross domestic product growth before it was officially released.

Headlined "Psst - wanna see a statistic?", the article went on to discuss the travails of politicians who oppose the ruling People's Action party.

Singapore's declared reason for restricting The Economist was "for refusing to print a reply from the government", but the authorities are also incensed by the magazine's occasional levity, or what one senior official called the "mocks and taunts" in its pages. The Economist did print two of Singapore's letters replying to the article, but a sentence was omitted from one of them.

Yesterday The Economist said it declined to print a third letter because it did not want to publish two letters from the same person and the same organisation in one issue. Last night Mr Bill Emmott, the editor of The Economist, said he did not rule out publishing the letter in a future issue.

He told the Singapore government last month that he might transfer the magazine's printing contract from Singapore to its other regional site in Hong Kong.

## Flour mill to be built in Sumatra

By William Keeling in Jakarta

A \$100M FLOUR MILL is to be built at Belawan in North Sumatra, taking advantage of the Indonesian government's decision last June partly to deregulate the flour sector.

Indonesia is one of the world's largest importers of wheat, having bought more than 2m tonnes last year.

The country is also home to what is reputed to be the world's largest wheat-miller, Bogasari Flour Mills, a subsidiary of Salim Group, which has a monopoly in the country's flour sector.

The group is a major consumer of flour, with its subsidiary Indofood Group enjoying a 90 per cent share of Indonesia's instant noodle market.

The new mill, with capacity of 1,000 tonnes a day, will be a joint venture of Bogasari, the Rodamas Group and ABC Group, both of Indonesia, and Gold Coin of Malaysia.

With plants at Ujungpandang on Sulawesi, and in Jakarta and Surabaya on Java, Bogasari has a capacity of about 11,000 tonnes a day.

In June, the government opened the sector to foreign investment but requires that all new ventures, domestic or foreign, export at least 65 per cent of production.

Indonesia, however, produces no wheat and the export requirement effectively closes most avenues for new investment.

Industry officials say the participation of Bogasari in the new plant's consortium reflects the limitations of the deregulation package and the continuing stranglehold of Salim Group over the sector.

The consortium is likely to argue that the plant be considered an expansion of the existing Bogasari operations and thus escape the export requirement.

# Interim Results 1993

	Half Year to 30.6.93 £m (Unaudited)	Half Year to 30.6.92 £m (Unaudited)	Full Year '92 £m
Interest receivable	2619	3097	5963
Interest payable	(1935)	(2497)	(4624)
Net interest receivable	684	600	1299
Other income and charges	174	144	358
Operating expenses	(381)	(336)	(706)
Provisions for loans and advances	(176)	(138)	(322)
Profit before tax and exceptional items	301	270	601
Net exceptional items	—	—	(37)
Profit on ordinary activities before tax	301	270	564
Tax on profit on ordinary activities	(137)	(97)	(247)
Profit after tax	164	173	317
Transfer to non-distributable reserve	—	—	(7)
Dividend	(54)	(50)	(151)
Retained profit	110	123	159
Earnings per share	12.50p	13.20p	24.20p
Dividend per share	4.15p	3.80p	11.50p

## FINANCIAL HIGHLIGHTS

### Group Review

- Pre-tax profit 11% up at £301million (£270million), despite 35% increase in bad debt charges
- Interim dividend declared of 4.15pence (3.80pence), an increase of 9%
- Cost:income ratio improved to 44.4% from 45.2%
- Bad debt charges (provisions and suspended interest) of £222million (£165million)
- Group margin reduced to 2.00% (2.11%)
- Capital expenditure £43million (£48million)
- Shareholders' funds £3,288million (£3,184million at December 1992)
- Total assets £75,491million (£71,812million at December 1992)

### Retail Operations

- Profit before tax of £300million (£229million), up 31%
- Estimated UK net mortgage lending market share of 23.3% (12.4%)
- UK net lending of £2.0billion (£1.2billion) - around two thirds as fixed rate mortgages
- Total retail inflows were £0.4billion (£0.7billion), giving an estimated share of liquid savings of 3.3% (+1.9%)
- Stock of repossession down over 1,500 to 7,801 (9,331 at December 1992)
- New repossession 33% down at 2,777 (4,139)

### Life Assurance

- Pre-tax profit of £14million (£14million) for Scottish Mutual and Abbey National Life
- Scottish Mutual's new business £191million (£68million)
- Abbey National Life began business on 1st February 1993 and has made an encouraging start - 60,000 policy proposals made in its first five months

### Treasury Operations

- Pre-tax profit of £56million (£38million)
- Active funding programme in first half, supporting Retail Operations mortgage lending and Treasury asset growth

### Continental Europe and Offshore

- Pre-tax loss of £86million (£9million loss)
- Bad debt charges of £94million (£16million) in France, primarily against commercial lending

### Estate Agency

- Pre-tax loss of £7million (£10million)
- Negotiations on sale of the Cornerstone network continue

### Other Operations

- Other operations contributed £5million (£8million)

## FUTURE PROSPECTS

Looking to the future, Abbey National will concentrate investment on its major businesses, UK Retail, Life Assurance and Treasury Operations, in order to achieve its objective of growing shareholder value. These businesses should continue to perform well for the remainder of the year, particularly as the UK economy improves. The problems in France will continue to be managed with vigour. Negotiations on the sale of Cornerstone are proceeding.

The 9% increase in the interim dividend reflects the Board's confidence in the Group's ability to grow earnings this year.



This advertisement contains only a summary of the Interim Results 1993 statement issued by Abbey National on Monday August 2nd. Copies of the full statement can be obtained from Abbey National branches, or by writing to: Shareholder Relations Office, Abbey National plc, Abbey House, Baker Street, London, NW1 6XL or by telephoning 071-612 4000. The ex-dividend date is 15th August; the record date is 27th August; the payment date is 11th October, 1993. Abbey National plc, Abbey House, Baker Street, London, NW1 6XL.



## NEWS: UK

# Power stations to burn 'world's filthiest fuel'

By David Lascelles, Resources Editor

BRITAIN'S pollution authorities have given permission for two power stations to burn oil, a mixture of bitumen and water which has been denounced by environmentalists as "the world's filthiest fuel".

The Pollution Inspectorate has issued authorisations to PowerGen, the UK's second largest private sector power generator, for its stations at Ince on Merseyside and Ribblesdale near Sandbach in Lancashire.

Both stations have been burning the fuel on an experimental basis for three years to enable emissions tests to be made. But the authorisations, issued last Friday, mean oil-mulsion is now officially deemed to be environmentally acceptable.

Oil-mulsion is a proprietary product made in Venezuela and imported into the UK by a

company jointly owned by Petroleos de Venezuela, the state oil company, and British Petroleum. It has the advantage of being cheaper than oil or gas, but its highly controversial environmental reputation has prevented widespread use. In particular, environmentalists have said it causes acid rain.

The UK pollution authorities have decided oil-mulsion is no dirtier overall than other fuels such as coal or heavy oil, and that it can be burnt without jeopardising the UK's commitment to reduce acid rain and prevent global warming.

Pollution inspectors have built up records of emissions and studied the experience of other countries, notably Canada, where oil-mulsion is also burnt. The tests show oil-mulsion emits more sulphur than oil or coal, but less of some other harmful matters.

The authorisations carry a number of conditions. PowerGen must closely monitor and

report its emissions. It must also draw up a plan to install equipment at both power stations to clean up exhaust gases, though this does not need to be in operation until April 1998. The inspectorate has also set emission limits which should prevent the stations being run at full capacity.

Official stress they have attached conditions to the authorisations as part of a general tightening of controls on power stations, not because they think oil-mulsion is dirty.

The authorisations will anger the environmental lobby which has campaigned strongly against oil-mulsion. But they also come at a sensitive time for the coal industry which is battling to retain a share of the power generation market. British Coal is due to start talks in the autumn with the generators aimed at securing additional sales of coal above the long term contracts agreed after the recent pits crisis.

## Britain in brief



### UK economy hit by losses at Lloyd's

The losses suffered by the Lloyd's of London insurance market have significantly damaged the domestic economy and the UK's balance of payments, according to a report published today.

Mr Ian Shepherdson, economist with Midland Global Markets Research, says in the report that Lloyd's losses over the last five years of more than £5.5bn are equivalent to the money lost on two or three "Black Wednesdays". He estimates that the individuals whose assets support underwriting will need to find £2.5bn to fund the 1990 deficit of £2.9bn, announced in June in line with Lloyd's three year accounting system.

### BT criticised by regulator

A recent British Telecom "special offer" to customers was discriminatory to competitors and must not be repeated, Ofcom, the telecommunications watchdog, ruled yesterday.

BT will be obliged to agree new rules with Ofcom to ensure that future special offers do not favour its business to the detriment of competitors.

### House prices rise again

House prices rose for the fifth consecutive month in July, with the Nationwide Building Society's monthly index registering a 0.7 per cent increase on June's level. Nationwide said prices had risen by 4.3 per cent since the end of 1992, but were still 2.4 per cent lower than in July last year.

### Hope of upturn in construction

The construction industry should see an upturn in its fortunes in the second half of this year after three years of recession, said a forecast by the National Council of Building Materials Producers. But the improved outlook depends on the government maintaining public sector investment at current levels, the Council said. The recovery in private sector activity was fragile.

### Investment exceeds target

Private sector investment in Tyne and Wear Development Corporation sites exceeded its target by 43 per cent in the last financial year, according to the Corporation's annual report and financial statements. In the year to March 31, the private sector channelled £86.2m into TWDC sites alongside the rivers Tyne and Wear, against a target of £60.3m.

### Indicator falls

Britain's longer leading indicator fell 0.2 percentage points in July to stand at 107.5, indicating slightly weaker economic activity.

# Climbdown on education policy

By John Auer

THE government yesterday signalled a full-scale retreat on education policy, announcing a dramatic reversal of its plans for testing, publication of school league tables and content of the national curriculum.

The changes, which follow a report by Sir Ron Dearing, appointed in April to review the curriculum by Mr John Patten, education secretary, appear likely to bring an end to boycotts by teachers' unions which wrecked tests for seven- and 14-year-olds this year.

They also signalled a climbdown from several policies the government has attempted to introduce to education since 1988, and led to opposition calls

for Mr Patten's resignation. Baroness Blatch, the education minister who responded to the Dearing report on behalf of Mr Patten, who is ill,

announced that league tables of school performance based on tests for seven- and 14-year-olds, planned to start this year, will be abandoned. Teachers' unions had lobbied heavily for this change, which was not covered in Sir Ron's recommendations.

The government plans to publish league tables for tests taken by 11-year-olds, which will not start on a compulsory basis until 1996 at the earliest.

Other climbdowns included restricting compulsory tests to the three core subjects of English, mathematics and science - it had been planned to

introduce them across the full range of ten national curriculum subjects - and raising teachers' assessment to equal status with the tests.

In a surprising step, Sir Ron announced that he will consult employers and teachers on introducing vocational courses for 14-year-olds. Baroness Blatch denied that the move was a government climbdown: "The early architects of the system built into the system too much bureaucracy, too much convolution and that has been substantially addressed by Sir Ron."

"We will be supporting that, and we will get back on to track where it was envisaged we should have been after the reforms were on the statute book in 1988."

Teachers' unions which are boycotting the tests all gave the news a cautious welcome. The traditionally moderate Association of Teachers and Lecturers is to ballot members in the new term. Mr Peter Smith, ATL general secretary, said: "Our members will need to see that the government intends to act." Mr Nigel de Gruchy, general secretary of the National Association of Schoolmasters' Union of Women Teachers, hailed the decision as a "vindication of the boycott".

Mrs Ann Taylor, shadow education secretary, described the news as "a significant blow to the government's original position", and said £3m had been wasted on attempting to introduce tests this year.

London authority wants a permanent cordon, says Vanessa Houlder

## City gets an insecurity complex

THE security cordon thrown around the City of London following a devastating IRA bomb attack earlier this year should be made permanent, according to proposals by the Corporation of London.

The cordon which was introduced on a temporary basis on July 3, involves the closure of 13 roads and the introduction of eight checkpoints where police, sometimes armed, stop vehicles.

The proposal, which is part of a package of anti-terrorist measures, is controversial. Opponents argue that the move risks handing a propaganda victory to the IRA and could undermine security in surrounding boroughs. Moreover, it may disrupt traffic within and around the City.

The Corporation, the authority which oversees the planning, local services and policing of London's financial quarter, will subject its proposals to a period of public consultation. But its highest hurdle will be convincing the government to give formal approval to the road closures. Road traffic regulations limit the period in which roads can be closed, on a temporary basis, to a maximum of 12 months.

The Corporation argues that it has to be seen to take a visible anti-terrorist measure if it is to retain the confidence of international businesses and continue as one of the world's leading financial centres.

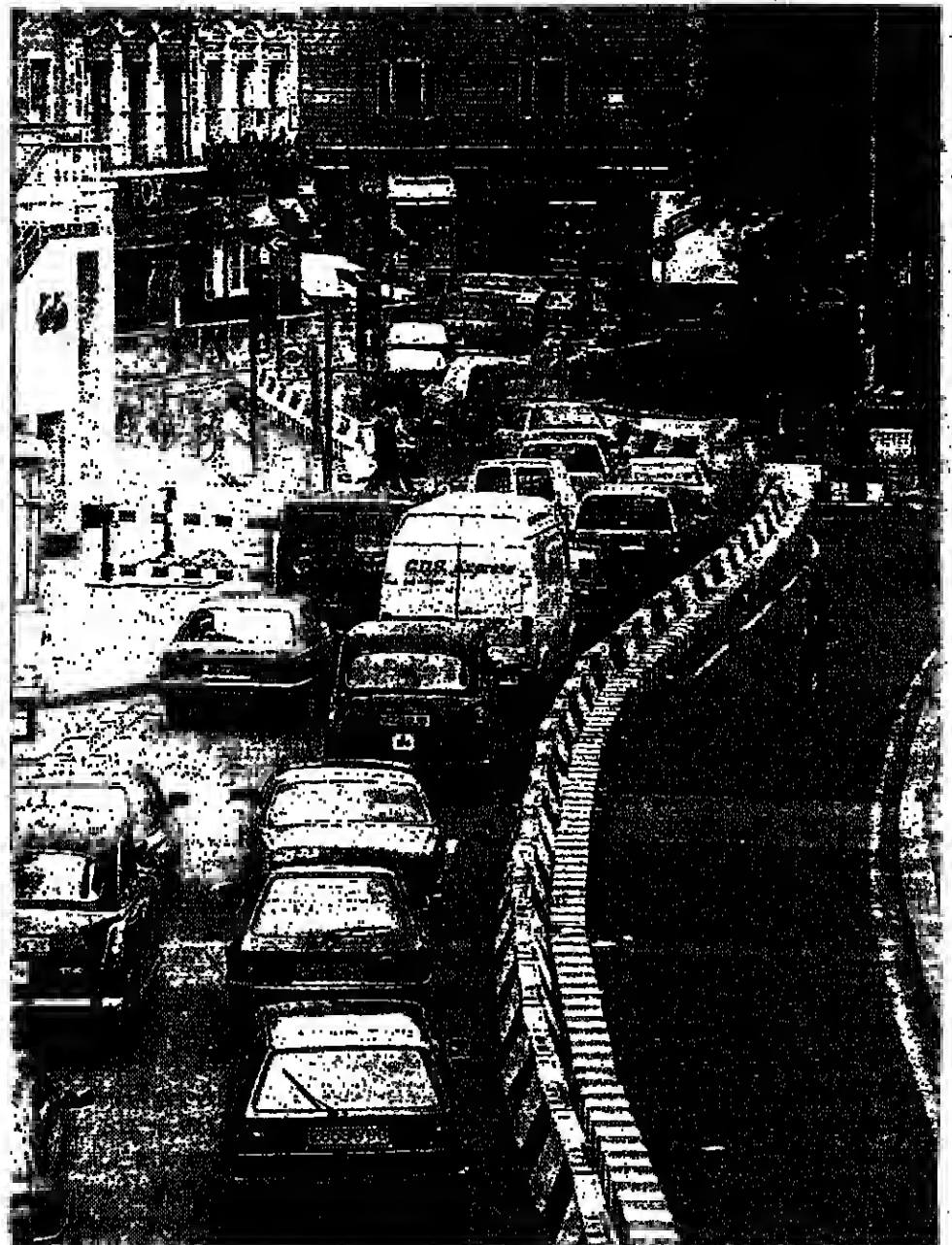
It says that some banks, particularly Japanese and US banks, are anxious about the risk of a further attack. The Japanese Chamber of Commerce and Industry voiced its concerns in a letter written in the wake of the Bishopsgate bomb, which raised the possibility that Japanese firms would look for an alternative to London if safety measures were not improved.

Although the Corporation accepts that publicity about the "ring of steel" around the City's core may tarnish its image, it believes the damage to its image would be far greater if the City suffered another serious bomb attack.

The City will not initially attempt to persuade the government to introduce legislation allowing for the closure of the roads on security grounds.

Instead, the Corporation intends to make a case for closing the roads on environmental grounds under the Road Traffic Act. It will argue that the road closure has led to lower pollution, less traffic and greater use of public transport.

If surrounding boroughs



Cordoned off: the Corporation of London claims traffic congestion caused by the 'ring of steel' outweighs the damage another bomb blast would inflict to London's status as a financial centre

oppose the road closures, the proposal will go to a public inquiry. The issue would be ultimately decided by Mr John MacGregor, the secretary of state for transport.

Surrounding authorities, such as Tower Hamlets, are critical of the City's decision to take unilateral action "without understanding the knock-on effect on surrounding boroughs".

Tower Hamlets is worried that it may suffer from traffic being diverted from the City and from increased car parking by people who switch from driving into the City to using the underground for the final part of their journey.

The RAC motoring organisation

is sceptical about the Corporation's claim that the cordon will not create congestion around the City. "For the City to say it is confining the problems to the City is ridiculous."

London Transport says the effect of the cordon is less disruptive than it originally thought, although buses are being delayed by up to 8 minutes for an average journey across the City.

The City police says it has not detected any detrimental effects of the increased security measures. Extra police presence on the streets and extra cameras has contributed to a fall in the crime rate by 16.4 per cent in the first six

months of the year, it says. When the time comes the Corporation believes that the relatively easy acceptance of the temporary cordon will strengthen its case for making it permanent.

Several senior politicians are not convinced. Some ministers, such as Mr Stephen Morris, transport minister, have expressed doubt about the effectiveness of the scheme.

Mr Michael Cassidy, chairman of the Corporation's policy and resources committee, argues that the City deserves special treatment because of the wealth of the businesses it is trying to protect. "Ministers have to recognise that the City is a prime target," he says.

# Britain ratifies Maastricht as legal challenge is dropped

By Robert Rice and David Owen

BRITAIN yesterday ratified the Maastricht Treaty just hours after Lord Rees-Mogg announced that he was abandoning his legal challenge.

Ratification was completed when Sir Patrick Fairweather, British ambassador to Italy, deposited the necessary instrument at the Italian Ministry of Foreign Affairs just after 3pm.

It brought to a close an epic 18-month struggle which has exposed bitter and lasting divisions in the Conservative party.

The move which made Britain the eleventh of the 12 EC states to ratify the treaty - Germany has yet to ratify it - marked the end of the road for Tory Euro-sceptics who had fought tenaciously to kill Maastricht off.

Prime minister John Major will be hoping the government can finally draw a line under what has been an immensely damaging episode for the Conservative party.

But Euro-sceptics are already threatening a fresh revolt when the government brings forward legislation implementing an agreement to increase national governments' contributions to the European Commission in November. Euro-sceptic leaders were yesterday in defiant mood with Mr Bill Cash MP arguing that Britain should not have ratified a treaty whose heart was "torn out" with the "collapse" of the exchange rate mechanism.

Mr Michael Spicer MP said it was "a matter of supreme irony that on the day that the ERM collapses we ratify a treaty whose objective is to create fixed exchange

rates forever, with all the economic misery that this has been seen to entail."

Lord Rees-Mogg's lawyers said the former editor of the Times had decided not to appeal against last Friday's High Court ruling rejecting his claim that the government was acting unlawfully by seeking to ratify the treaty without parliamentary approval.

A statement put out by his solicitors said Lord Rees-Mogg's decision had also been influenced by the ERM crisis which had "effectively removed one of the key pillars to Maastricht. In those circumstances, an appeal is not necessary; indeed there is not much of the Union Treaty left standing."

Lord Rees-Mogg and his main backer, Sir James Goldsmith, the international financier, had both agreed it was right to go no further.

## Recession hits investment in E Europe

By Anthony Robinson, East Europe Editor

THE reluctance of UK companies to invest in eastern Europe has grown during a recession which has led a third of UK companies to cut back on their overall overseas investment, according to a study by Coopers and Lybrand, accountants and management consultants.

Only 35 per cent of 100 companies selected from the FT Top 500 surveyed by Gallup regarded central or eastern Europe as an important priority area for new investment. That compared with 85 per cent which chose western Europe and 67 per cent which picked North America or the Far East/Asia as priority areas.

More than a third of sample companies had some form of investment in eastern Europe, but a third said they would not even consider investing in the former Soviet Union.

## Compensation limit 'unlawful'

By Robert Rice, Legal Correspondent

EMPLOYERS face the prospect of higher claims for compensation from victims of sex discrimination after the European Court of Justice ruled that Britain's statutory £10,000 ceiling on tribunal awards was unlawful.

The Luxembourg court ruled that the limit on compensation in the Sex Discrimination Act is in breach of European Community law. Those who have suffered sex discrimination must be compensated in full for loss and damage suffered even if that means exceeding the current ceiling. The government will now have to legislate to remove the limit.

The court's decision was made in the second case brought by Miss Helen Marshall, a retired dietitian, against her former employers, Southampton and South West Hampshire Area Health

Authority. In 1986 Miss Marshall won a ruling from the European Court that she could rely on an EC directive in her action against her employers for discriminatory early retirement.

Following that decision the industrial tribunal awarded her £15,405 in compensation which included £7,710 in interest on the date of her dismissal to the date of the tribunal's decision. In reaching its decision the tribunal disregarded the £5,250 limit on compensation under the Sex Discrimination Act at the time. The health authority paid the capital sum but refused to pay the interest, and her case was eventually referred back to the European Court by the law lords.

Lawyers said the ruling had dramatic implications for UK employers. Mr David Pannick, a senior lawyer, said: "It is of very great significance for securing equality in the workplace."

## PEOPLE

### Bridon: high hopes for a healthy future

After nearly a year of management upheaval, largely due to illness, Bridon, which manufactures and distributes wire rope and engineered products, has found a new chief executive. He is 46-year-old American Ronald Petersen, who has lived in the UK since 1981.

The last chief executive but one, David Ailday, stepped down last September because, as the then chairman John West put it at the time, "he has had to push water uphill and has had enough".

In an internal appointment, Brian Clayton took over as chief executive with the aim of "revitalising group strategy and looking for a long-term successor". Then, in February, John West stepped down as non-executive chairman because of his ill-health, to be succeeded by Derek Edwards, who, however, died suddenly last month.

Hence Clayton, 80, steps down from his executive role, as planned, but instead of becoming a non-executive

director, becomes non-executive chairman. Clayton adds that the company will "in the short to medium term" be looking for one or two more non-executive directors.

Petersen, who was picked primarily for his sales and marketing skills, was previously chief executive of Insituform Group Ltd, responsible for all the non-US activities of the American parent which sells systems for the non-invasive lining of pipes.

Before that, he had worked, in North America and Europe, for Armstrong World Industries, which manufactures and distributes flooring and ceiling systems. With a total of 17 of the last 22 years spent in the UK, Petersen is characterised by Clayton as "very anglicised".

While Bridon has been the subject of persistent bid speculation, Clayton says it has all "probably been without foundation".

He says Petersen is on a "perfectly normal contract with no strings attached".



Jeremy Lancaster, 57, chairman and managing director of Wolseley, the world's biggest plumbers' merchant, has been appointed a non-executive director of Kleinwort Benson Group, Lord Rockley, who took over as chairman of Kleinwort in April, says that he had been looking for a successful industrialist to help fill the gap on his board following the retirement of Sir David Steel and the late Sir George Turnbull.

Lancaster, who has headed Wolseley since 1976, is well regarded in the City. Educated at Rugby and Christ Church, Oxford, he did his apprenticeship at GKN before joining the family company in 1961. In 1978 he took over from his father, Norman Lancaster, since then the company's sales have risen from £72m to £1.9bn and pre-tax profits have gone up more than 20 fold. Another sign of City approval came earlier this year when Wolseley joined the FT-SE 100 index.

Paul Bennett is retiring as chairman of Aquascutum, the upmarket fashion retailer renowned for supplying outfits to Baroness Thatcher. Bennett is handing over to James Stokes, who has worked closely with him as joint managing director for the past two years.

Bennett, 65, joined the chain in 1960 as the company's representative in Japan. He built up the Far East business from virtually a one-man operation into one of Aquascutum's most important markets. After the company was bought for £74m by Renown, the Japanese clothing company, Bennett was invited back to the UK to become chairman and joint managing director in 1991.

James Stokes, 58, trained as an accountant and joined Aquascutum in 1962. He was financial director until 1991, when he was appointed joint managing director with Bennett, and has also acted as deputy chairman of the company since 1982.

Bennett says he he has overseen the transition of Aquascutum from a "closed enterprise" to a subsidiary of an international group and feels he can now "gracefully retire".

### Naylor leaves MAM for a pizza the action

James Naylor, who has been running MAM Leisure, the amusement machines business which parent Chrysleris Group has decided to wind up, is moving to City Centre Restaurants, the operation that includes Deep Pan Pizzas and Garfunkels. He becomes chief executive from the beginning of October.

"The timing was absolutely appalling for me," agrees Naylor, stressing that he was approached by the restaurant group in May and had decided to go well before Chrysleris's decision to close MAM.

Naylor, 47, steps into the shoes of Phillip Kaye, who is 61, and has decided to give way to a younger man. Kaye will, however, stay on as an executive director, something Naylor claims he welcomes. "He is someone I have long admired from a distance. He has even more experience in the leisure business than I do and I think I've got a lot to learn from him." Naylor's past experience includes First Leisure, where he was joint managing director

until 1988, Forte and Thorne EMI.

Kaye, who dreamed up Golden Egg and Strikes as well as Garfunkels, Deep Pan and Chiquitas, will continue to be involved with new business development.

Naylor's spell at MAM had only lasted a year. He came in "largely in a company doctor role, to see what could be done. When Chrysleris decided it did not want to continue underwriting the losses, it was hard to grieve that," he comments.

Before MAM he had set up Whitelake Leisure with an colleague from Columbia University MBA days, Nick Oppenheim. He parted company with Oppenheim, with whom he says he now has little contact. "An unfortunate act of timing," is how he describes the decision to set up Whitelake just as the 1980s boom was ending. Kaye on the other hand is not concerned by the Whitelake experience: "We did investigate it very carefully and we concluded that no blame attached to him."

### Departures

Paul Cassidy, md of HEYWOOD WILLIAMS' UK glass division, has left the company following the sale of much of the division to Pilkington earlier in the year.

Gianfranco Migliffi has resigned as joint md of RENISHAW, but remains md of the Italian subsidiary.

Gerry Townsend, market development and public relations director Europe for LAWSON MARDON GROUP, has retired. He is a former chairman of the BSI PKM/ packaging, programming and policy committee and remains chairman of the board of the Institute of Packaging and president of the World Packaging Organisation.

Roger Graham, chairman and chief executive of the BIS Group, is leaving following its acquisition by ACT GROUP.

Christopher Houseman has resigned as KLECO HOLDINGS.

Nicolas Thum has resigned as a director of TIME PRODUCTS.

Reginald Lowman, joint md of Ultramark Adhesive Products, has resigned from SPANDEX.



Andrew Fisher looks at companies which have flourished with the help of instant data

# Speed is of the essence



At your service: using point-of-sale equipment, McDonald's can locate the cause of delays at its new UK drive-in restaurants

If you want to shop with comfort in the US these days, just pick up the telephone and talk to Tootie. She will take your order, agree on the method of payment, and tell the warehouse to send off your product.

Tootie is not human. She is the recorded voice that answers consumers contacting Home Shopping Network, the main player in the \$2bn (£1.3bn) business of electronic shopping, while watching one of the company's television sales promotions.

Not everyone, however, likes dealing with a recorded voice, even one whose responses have been programmed to match the goods on offer. A live operator will come on if the caller does not speak to Tootie within five seconds.

Florida-based HSN, which collects a massive array of near-instant computerised data on its sales and financial performance, is a prime example of how information technology can make life easier for companies and organisations, as well as their customers. With IT costs falling rapidly and hard-pressed computer companies pushing deeper into the services and software market, users can take their pick of technology to suit their needs, though they may not always make the appropriate choice.

Not only can this lead to faster and more reliable service for consumers and in public services, it also provides information of strategic value for enhancing efficiency, giving businesses new insights about their performance or lack of it, and streamlining their marketing activities.

Whether people like the idea of shopping from home or not, electronic retailing is an impressive demonstration of what can be achieved with IT. But there are plenty of more mundane ones. In the Netherlands, for example, the telephone company (Royal Dutch PTT Telecom) is refining the process of ordering a line connection to a minimum.

In one short visit to a Dutch PTT office, the customer can obtain a new number, a telephone contract, and the precise time of a connection within two days instead of the two weeks this used to take, by 1995, connections should be instantaneous.

What the Dutch PTT did was channel the information from its mainframe computers - including equipment from IBM, Digital Equipment, Unisys and Olivetti - to individual terminals in the sales offices. Thus sales staff have all necessary operational details about debtors, lines, payment methods, and other aspects of the business at their fingertips.

Modern IT can also help in the process of ordering a line connection to a minimum.

to put this data from several different systems together instead of requiring employees to switch between software programs on the same screen. This has cut errors and speeded up service. A big stimulus to its technological push was the need to raise efficiency ahead of the time when its monopoly status is reconsidered in two years.

The technology for this and other applications is not brand new, says Martin Stone, visiting professor at Kingston University in the UK and a partner in Avanti Consultancy Services. But it has become much cheaper and better understood as computer companies have been forced by fierce competitive pressure to concentrate more on finding solutions for customers' needs and less on selling their own hardware.

In some areas, the technology enables companies to do things they couldn't do before," explains Stone. Advanced software and computer networks mean that HSN, whose smaller rival QVC Network has proposed a merger, can not only process orders rapidly and automatically, but also provide an instant answer to how goods are sold.

HSN's data is updated every 10 seconds so the hosts of its TV "infomercials" can see on a computer screen exactly how well the products on offer are selling. If they are moving slower than usual for the time of day or type of product, the host and producer can switch immediately to another line or promotional pitch. They are also kept up to date with inventory levels and told whether products are running out.

Thus HSN, which developed its own software, can monitor its sales progress in "dollars per minute", says Stella Tavilla, executive vice-president for management information systems.

At management level, this volume of product-tracking data is used to influence reordering and assist in marketing strategies, since HSN has full details of purchasers' names and addresses. "There's no doubt," adds Stone, "that in the

direct marketing area, the ability to build a database on millions of customers, and process the information on-line and respond to it, has made a difference to what they can do."

This is a result of the sheer processing power and speed of today's computer equipment. A new study, initial results of which were presented at a conference in Nice, southern France, says companies are increasingly keen to use IT to improve service, and thus their competitive and financial position, while public service bodies want to respond more effectively to people's needs, sometimes under legislative pressures.

"Perhaps the most striking conclusion is that most large organisations are now seeing IT as one of the most important bridges to enhancing customer service," the report's authors, headed by Stone, state. "They now rarely see customer service as having separate components, such as marketing, selling, after-sales service and invoicing, each with their own system."

At the conference, organised by Unisys, the US computer group which sponsored the study, Stone said the UK was often 10 years behind the US in marketing. Companies like HSN, with its sin-

**The company can monitor its sales progress in 'dollars per minute'**

gle-minded focus on a few performance indicators and its attention on "dollars per minute", showed what could be achieved with effective use of IT.

Nowhere is speed of service more important than in the fast-food industry. The UK operation of McDonald's, the US hamburger chain, is applying IT to improve and accelerate information flows between its restaurants and the London head office. As it upgrades point-of-sale equipment in its outlets, it can use POS data to pinpoint exactly where delays have been occurring, at what times of day, and why.

Previously, the UK company's performance indicators were based on averages for each store. "The fact that we serve one customer very well, or maybe even 10 customers very well, and one very poorly could be masked in that average," says Dan Fishman, assistant vice-president, information services. We need to be able to get away from that."

Fishman sees exciting possibilities in drive-in restaurants, more of which are being built in Britain, and remote ordering of fast-food meals. Queues in drive-ins can cause havoc at busy times. So, with the help of detailed data from its IT installations, McDonald's will track transactions to find the source of delays and decide how to tackle these.

Eventually, he hopes, customers will be able to order meals from office computers, using cheap software, or tap in their request at a special machine before entering, say, a shopping mall containing a McDonald's.

Not everyone likes McDonald's food, and shopping HSN-style in front of the TV is still only a minority form of retailing in the US. But, the activities of these and other companies show the extent to which the intelligent application of computer technology is changing both business and customer attitudes.

The IT companies are certainly being swept along by the change. With economic growth in western economies expected to be plodding rather than brisk in the next few years, users are increasingly calling the tune. By 1997, when the world IT market is expected to reach around \$700bn, services and software are forecast to account for 60 per cent against just over half at present.

Customers now want more than the promise of ever faster and more powerful equipment, says John Perry, head of Unisys in the UK. They expect to be helped to use their IT systems more effectively, and that means more business in consultancy and less in hardware. "We think it's going to be a decade of battling for the customer."

## Sealed with innovation

Advances at an Austrian group are helping industry, says Ian Rodger

It is difficult even for engineers to get excited about seals, the rubber or plastic rings that are fitted at joints in fluid pipes to prevent leakage. But this is a business with a \$4bn (£2.6bn) annual worldwide turnover and vital to the functioning of most industrial machinery.

It is now being shaken up by a small Austrian company, Economos, that has achieved an impressive series of innovations in materials and production technologies and distribution methods.

There are thousands of seal types and sizes, and customers expect their distributors to keep stocks available of most of them. Seal makers, too, put pressure on distributors to buy large stocks. This is because their production technology and injection moulding encourages them to make large batches.

In the mid-1980s, Helmut Mayerhofer, founder of Economos, and his associates began investigating the possibility of developing compounds that could be machined on a numerically controlled lathe. When an order came in for a small quantity of an item not in stock, they could simply take a rough block of polyurethane or synthetic rubber and turn the required few pieces.

The problem was that few existing polyurethane compounds could be machined and those that could were not flexible enough to make suitable seals.

They approached the Department of Material Science and Material Testing of the Mining University of Leoben in Styria in 1988 for help, and within a year a formula was found that would produce a machinable polyurethane material suitable for seals.

Meanwhile, Economos, working with a plastic machine maker, developed a process for extruding the material into rough seal moulds - which resemble lengths of pipe - in industrial quantities. The challenge in producing material for seals and extruding it into rough shapes is that the finished product must have highly consistent elastic properties and be free of bubbles.

Achieving these aims becomes more difficult as the desired diameter of the seal increases. The company's third innovation was the development of a lathe, cutting tools and software for machining the rough stock into precisely dimensioned seals.

Economos considers these developments to be so valuable that it does not allow any employee to learn both the chemical and production aspects of the technology. Moreover, it has not taken out patents, fearing that competitors would quickly find ways of getting around them.

An unexpected benefit came as a result of the speed and degree of automation of the company's lathe. It can machine a seal in about a minute, slice it off the rough stock and immediately machine another from remaining stock. This meant the system could be applied more widely than originally anticipated. Economos can use it to produce normal volumes as well as occasional seals.

Since production could be done in response to orders, why not set up for business as close to the customers as possible? Under that model, distributors would no longer need to carry large stocks, making possible lower prices and higher margins. Machinery producers might even be tempted to abandon the stocking and supply of replacement seals.

In the past two years, Economos has set up, together with local partners, what might be termed seal service centres worldwide. Economos supplies the rough blocks of material and the lathes, while the local entrepreneur, under a franchise agreement, machines and delivers seals in response to orders. So far, there are 250 such centres operating with the brand name Seal-Jet. Ernst Stocker, Economos managing director, estimates their combined annual sales at about \$120m.

Economos had revenues last year of \$ch420m (£23m) almost all of it from selling machines and materials. It is now revising its strategy to gain greater control of the seal service businesses outside Austria.

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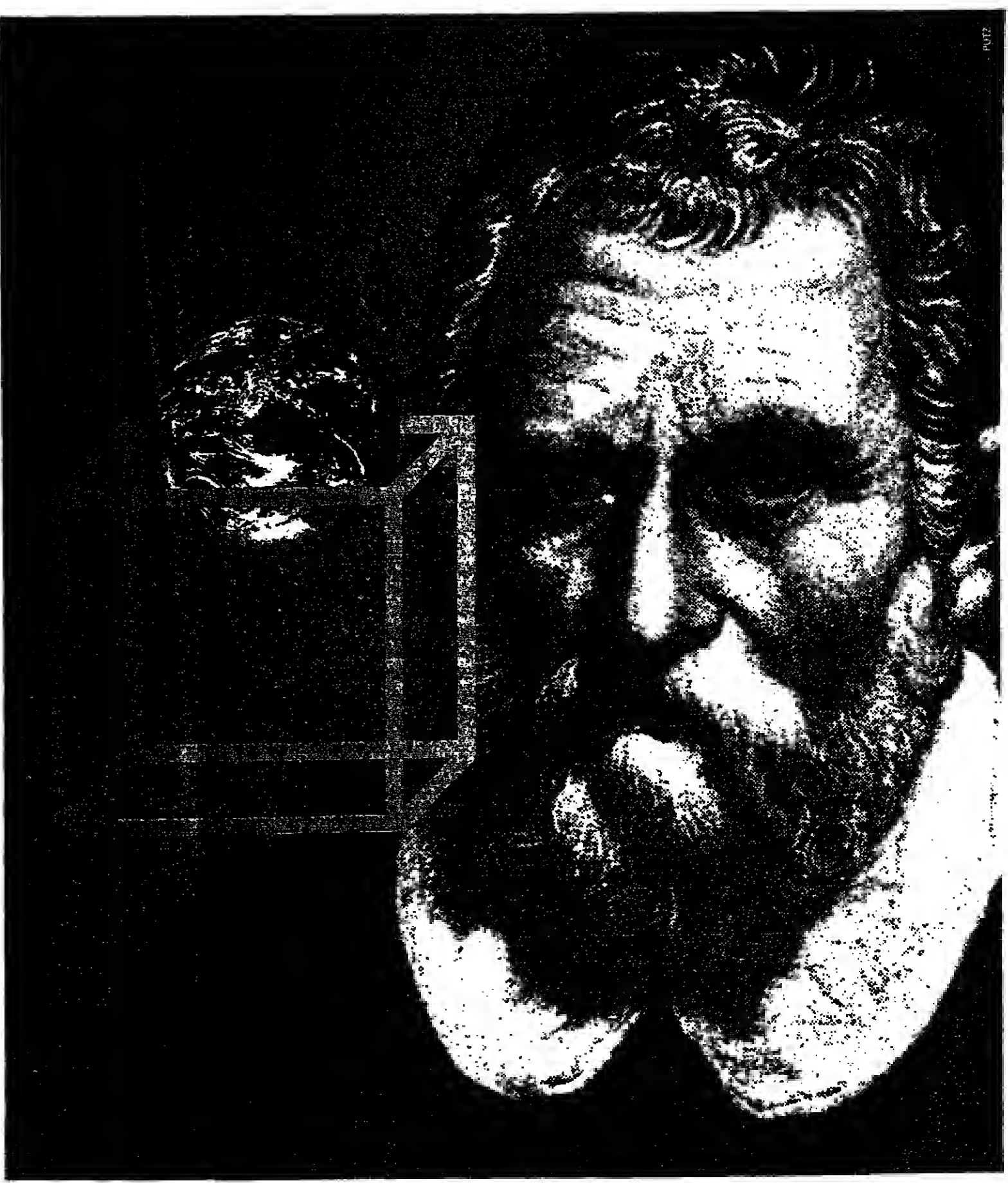
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## MANAGEMENT: THE GROWING BUSINESS

## Radical proposal for loans

Further radical changes in the government's loan guarantee scheme are needed if it is to be of maximum benefit to businesses recovering from the recession.

This suggestion is made in a new study\* by the Small Business Bureau, a Conservative party lobby group. The report comes within weeks of changes intended to make the scheme more useful.

The scheme provides a government guarantee on loans to viable businesses that lack either a track record or security. On July 1 the government increased the maximum loan from £100,000 to £250,000 and the guarantee from 70 to 85 per cent.

The bureau suggests:

- Make the scheme available to larger businesses. The recent increase in the maximum size of the loan was not accompanied by an increase in the size of eligible businesses.
- Simplify the complex eligibility rules. At present manufacturing companies must have a turnover of less than £3m, construction companies must have fewer than 25 employees and road transport companies must have fewer than five vehicles.

The bureau wants a two-tier scheme. Loans up to £100,000 would be available to businesses less than two years old with up to 50 employees and sales of £3m. Loans of up to £250,000 would be available to businesses of any age that have up to 125 employees and £7.5m of sales.

- Publish a more helpful explanatory booklet.

The present booklet makes qualifying for a loan appear too easy while a separate supplement, not always provided with the booklet, sets out the numerous restrictions.

- Start a debate about the possibility of requiring borrowers to show either that they have business experience or that they have had training.

CB

\*Enhanced Loan Guarantee Scheme Report, Small Business Bureau, Suite 46, Westminster Palace Gardens, Artillery Road, London SW1P 1RR. Tel 071 976 7262.

Hunter Plastics, a manufacturer of pipes and guttering, thought it knew what its customers wanted. But market research came up with some unexpected answers and set the company off on a quest to really get to know its customers.

That research was our Rubicon," says Chris Nunn, managing director of the south London company, which has turnover of £15m and 200 employees. "We thought that price and quality would be at the top of the list. It turned out that customers wanted service and profits. They are related, but different."

Hunter's customers - mostly builders merchants - were looking for products promoted and priced so as to leave them a satisfactory profit margin. They wanted the products delivered at convenient times, in handy quantities with a minimum of hassle.

As a result, Hunter has spent the past three years working much more closely with its customers. Buyers have been invited to Hunter's factory to meet staff in production, stores and quality assurance, not just sales. Customers have been visited to discuss their requirements and products, such as a new line of guttering, have been developed.

Better ways of running the business have been discussed and Hunter has replaced its cumbersome, labour-intensive method of processing orders with a computerised system. Closer links with certain customers have led to Hunter becoming the single source for some supplies.

Nunn says the closer relationship with customers has developed naturally. But the strategy - known as partnership sourcing - has been growing in popularity around the world in recent years. In the UK the Department of Trade and Industry and the Confederation of British Industry have established a joint venture, called Partnership Sourcing, to promote the concept.

Hunter was somewhat unusual in suggesting the partnership idea. In other cases of partnership sourcing the impetus has usually come from large companies buying from smaller suppliers. IBM UK, Nissan and British Airways are among the large purchasing organisations featured in one explanatory Partnership Sourcing booklet.

Not surprisingly, suppliers used to the traditional adversarial relationship with buyers have often reacted cautiously to the idea. "If a buyer has been aggressive for years and then suddenly wants to give you a cuddle there is bound to be some initial suspicion," comments Norman Hosford, deputy director of Partnership Sourcing.

Adapting to relationships based on partnership requires considerable change on the part of both suppliers and purchasers. Companies that commit themselves to a single source of supply run the risk that the supplier could be hit by a strike, go bust or attempt to push up prices.

Suppliers that become overdependent on one large customer, or who reveal too much about the details of their business, might also be making themselves vulnerable.

What has brought the two sides together in a growing number of instances is the realisation that hard-nosed competition, based on price alone, benefits neither side.

"If price is everything, the time comes when the law of diminishing returns begins to apply," says Malcolm Diamond, managing director of TR Fastenings, TR, based in Uckfield, East Sussex, with sales of £27m and a workforce of 400, was introduced to the idea of partnership sourcing by a DTI initiative.

"You reach the point where savings don't reflect the time involved," Diamond says. "When there is nothing else to grab then something else will go wrong - deliveries will be late or quality will be poor or inconsistent."

Contacting potential suppliers, sifting through the quotes and



Chris Nunn: 'We thought price and quality would be at the top of the list. It turned out customers wanted service and profits'

## Planning your future together

A closer relationship with customers can bring benefits to both sides, writes Charles Batchelor

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selecting the cheapest products from a number of companies is enormously time consuming, Diamond says. It can lead to uneven quality and create an administrative jungle.

For basic products such as the nuts and bolts supplied by TR, 80 per cent of the cost to the purchaser goes into handling deliveries, breaking up bulk consignments and getting them to the right place in the production line.

For those customers with which TR has reached partnership sourcing agreements - accounting for 30 per cent of the company's turnover - deliveries are made direct to the production line without the need to count or check them for quality.

One customer, Worcester Controls, bought more than 800 items at a cost of £200,000 a year from TR. But 35 items accounted for £130,000 of the total and involved more than 400 deliveries a month. Each delivery could take up to two weeks to pass through the goods-in and inspection departments before it was available for use.

TR's delivery driver now stocks up these 35 items himself with one

delivery note per delivery and one invoice each month.

Adapting to partnership sourcing does not require sophisticated systems but it does require a change in attitudes on the part of both partners, comments Hosford. Very few partnership sourcing arrangements involve written agreements so they depend to a great degree on trust.

Suppliers and purchasers must invest a lot of time and effort in establishing new procedures. In practice they will only do this with companies they have dealt with for many years.

"It is difficult discussing problems with a customer," says Chris Nunn. "But if something is going wrong in production or delivery it is better for the customer to know. That is the way a long-term relationship builds up."

Once a supplier can count on such a relationship it is in a better position to make long-term investment plans, says John Edser, managing director of Hatfield-based Applied Digital Devices (ADD), which repairs computer equipment for ICL and others. ICL accounts for half of ADD's £2m turnover.

ADD, which is one of more than

180 partnership suppliers signed up for ICL's vendor accreditation programme, has received help in bringing its quality assurance system up to ISO9000 standard. It has also been encouraged to adopt electronic data interchange (EDI), a paperless method of exchanging orders, and quality for Investors in People, a government-backed scheme to improve workforce skills.

Implementing such new procedures can place enormous pressure on suppliers - ADD has not found it easy changing over to EDI - but it does give a small company access to skills and systems that help it deal with other customers. "It gives us a competitive edge in the market place and services we can offer to other customers," Edser says.

In theory, partnership sourcing can lead to such close contacts between the two companies involved that the supplier opens his books to the customer. The idea is that this openness allows the customer to see where further cost savings could be made and overcome any fear that the single source supplier is overcharging.

In practice open-book accounting has proved extremely controversial and has yet to be implemented by many companies.

"The idea has been raised by a few customers but I would regard it as a little high-handed," comments Diamond. "I don't mind showing people my management accounts if they really need them. But I have a certain distaste for the idea. You don't go into a restaurant and ask to look at the kitchen. Anyway production costs can change from month to month."

ADD does not give ICL access to its accounts, though it was asked to do so a few years ago. But ICL does use its partnership sourcing arrangement to maintain tight controls on costs. It expects cost reductions in return for putting more business with ADD's way, explains Edser. He calculates that prices have been reduced in three of the past five years and held steady in the other two. The supplier benefits by being able to spread his overhead costs over a bigger volume of business.

Partnership sourcing may represent a move away from traditionally adversarial relationships between suppliers and purchasers but it is not a cosy alternative, says Hosford. "It requires a large investment up-front and continuous, close monitoring. It is not an easy option."

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\*One of three booklets entitled Partnership Sourcing, Making Partnership Sourcing Happen and Creating Service Partnerships. £7 each or £28 the set. From Publication Sales, CBI, Centre Point, 103 New Oxford Street, London WC1A 1DU. Tel. 071 579 7400.

## Investors sought for city

Plans for a £3m local investment fund to finance community enterprises in deprived inner-city areas have been announced by Business in the Community (BIC), which co-ordinates business support activities.

The Department of the Environment has promised £1m if corporate investors can be found to provide £2m. If the money can be raised the fund hopes to back about a dozen community projects in the north-west of England.

Community enterprises are businesses with a social purpose such as the North Kensington Amenity Trust, which has developed wasteland beneath a raised motorway in west London, and Cradock Park Community Trust, which has helped revitalize a housing estate in Newcastle upon Tyne. The projects must be in Urban Priority Areas.

"We want to show investors that they can reap a profit from investments which most people don't see as paying back," said Graham Hann, director of the investment fund.

Models for the idea are ventures such as the South Shore Bank, which has revitalised a run-down area of Chicago, and Triodos Bank, an ethical investment bank in the Netherlands. Different banking laws have meant that the project has been set up as a fund in the UK.

South Shore Bank made a loss provision of 0.5 per cent of the loan portfolio in 1991, while Triodos made a provision of 1.5 per cent, so properly monitored investments can be an acceptable lending risk, BIC said.

If the first £3m "pilot" fund is successful BIC plans to raise a larger second-stage fund. Minimum investment in the pilot fund will be £50,000 so it will appeal mainly to corporate investors.

The second fund, if it goes ahead, is expected to call upon deposit-taking institutions, companies and wealthy private individuals.

CB

\*BIC, 8 Stratton Street, London W1X 8PD. Tel. 071 639 1600. Fax 071 629 1634.

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Potential respondents are able to obtain a copy of this document by making a refundable cash security deposit with the Bank, and signing a non-disclosure statement. The Bank will reserve the right

to reject any request to issue a document to any party. For details, please contact the persons below.

A conference will be held in Kuala Lumpur, Malaysia on 20 August 1993, at 10 am, to discuss the RFEI. Participants of this conference must be holders of a valid copy of the Bank's RFEI document. They must confirm attendance by 17 August 1993.

Responses are on an obligation-free basis.

## Contact Persons:

For discussion:  
Name: Mr Joseph A P Heathcote,  
Information Services Controller  
Tel: 603-2741788 Ext 271  
Fax: 603-2012125

For Appointments, Cash Security Deposit Details & Logistics:  
Name: Ms Boo Kwie Liong,  
Information Systems Manager  
Tel: 603-2741788 Ext 529  
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8 Bedford Row  
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BUSINESSES FOR SALE

GREEK EXPORTS S.A.

ANNOUNCEMENT OF A PUBLIC AUCTION FOR THE HIGHEST BID

GREEK EXPORTS S.A., established in Athens (17 Panepistimiou Street) and legally represented, in its capacity as Liquidator in accordance with article 46a of Law No. 1891/1990, supplemented by article 14 of Law No. 2000/1991 and following Decision No. 3089/1993 of the Athens Court of Appeal.

ANNOUNCES

A Public Auction for the Highest Bid with sealed, binding offers for the sale, in toto, of the assets of the société anonyme named GENIKI PROMITHEFTIKI (KATASKEVAI) AE ELECTRICAL, TELECOMMUNICATIONS AND PLASTICS INDUSTRY, which is under special liquidation.

ACTIVITY AND BRIEF DESCRIPTION OF THE COMPANY

GENIKI PROMITHEFTIKI (KATASKEVAI) AE is engaged in the manufacture of low, medium and high voltage electrical equipment of all kinds. In its long period of operation, the Company has succeeded in absorbing and applying locally foreign know-how and is considered to be one of the most successful suppliers of the Public Power Corporation (DEI), the Hellenic Telecommunications Organisation (OTE) and other corporations.

The company is established in Athens and is housed in self-owned offices of about 115 sq.m. in area (25 Stourmari St.) while its plant is at Oinophita, Boctia, on a self-owned plot of 18,286 sq.m. On this plot, there is a three-storey building consisting of a ground floor, a first floor, a second floor and a roof terrace. The built-up part covers an area of 5,493 sq.m. together with smaller, secondary buildings covering about 490 sq.m.

TERMS OF THE AUCTION

- In order to take part in the auction, interested parties are invited to receive from the Liquidator the Offering Memorandum as well as the form of the Letter of Guarantee required for the submission of a binding offer to the Athens notary public assigned to the public auction, Mr. Andriani-Dimitris Economopoulos-Zapheiropoulos, 18 Voukouration Street, 5th floor, tel. 361.8249 up to Thursday, 2nd September 1993 at 19.00 hours. Bids must be submitted in person or by a legally authorised representative.
- The bids will be accepted before the above-mentioned notary public on Friday, 3rd September at 11.00 hours with the Liquidator in attendance. Bids submitted beyond the prescribed time will not be accepted or taken into account.
- The sealed, binding offers must clearly state the price offered for the purchase, in toto, of the Company's assets and must be accompanied by a Letter of Guarantee from a bank legally operating in Greece, for the amount of eighty million drachmas (80,000,000 drs.) or its equivalent in U.S. dollars.
- The Company's assets and all fixed and circulating contingent parts thereof, such as immovable and movable property, claims, trademarks, titles, rights, etc., are to be sold and transferred "as is, where it is" and, more specifically, in their actual and legal condition and location on the date on which the sale contract is signed, regardless of whether the Company is operating or not.
- The Liquidator, the Company and the creditor representing 51% of the total claims against the Company (Law 1892/90 article 46a para. 1 as in force), known hereafter as the Majority Creditors, shall bear no liability for any legal or actual defects or for any deficiency in the efficacy or validity of the assets for sale nor for the possible refusal of the State to approve, as required the transfer of elements of the assets, nor for their incomplete as they stand on the date of signature of the sale contract, shall prevail.
- Prospective buyers, hereinafter referred to as "Buyers", shall be obliged, on their own responsibility and due care, and by their own means and at their own expense, to inspect the object of the sale and form their own judgement and declare in their bids that they are fully aware of the actual and legal condition of the assets for sale. The Buyers are hereby reminded that, in accordance with the provisions of Law 1892/90, article 46a, para. 4 as in force, having agreed in writing to maintain confidentiality, they are entitled to have access to any information they may require concerning the Company for sale.
- Bids should not contain terms which might prejudicially affect their bindingness or any vagueness concerning the offered price and its method of payment, or any other matter of importance to the sale. The Liquidator and the Majority Creditors have the right, at their incontestable discretion, to reject offers which contain terms and conditions, irrespective of whether these offers contain a higher price than that of other bidders. Such unacceptable terms would be, for example, requests for the repair, improvement or transfer of fixed assets, or requests for guarantees in the collection of claims or the outcome of court actions brought by the Company in this respect, or compliance with recommendations regarding the security of the installations, or safeguarding the insurance cover, etc.
- In the event that the person to whom the auction is adjudicated, fails in his obligation to appear within twenty (20) days from being invited to do so, and sign the relative contract and fails to abide by the other obligations accruing from the present announcement, then the above-mentioned guarantee of eighty million drachmas (80,000,000 drs.) is forfeited to the Liquidator in compensation for expenses of any kind, time spent, any actual or hypothetical loss sustained with no obligation on the Liquidator's part to furnish any specific proof or deem that the amount has been forfeited to him as a penalty clause and collect it from the guarantor bank.
- Guarantees deposited by other bidders shall be returned to them after the Liquidator's evaluation report has been approved by the Majority Creditors and the highest bidder's guarantee shall be returned to him after he has paid the sale price and the act of settlement has been drawn up and signed.
- The highest bidder is deemed the one whose offer has been judged by the Liquidator and approved by the Majority Creditors as being in their best interests.
- The Liquidator shall not be liable to participate in the auction either with respect to the evaluation report or for his selection of the highest bidder and neither will he be liable to them for the cancellation of the auction in the event that its outcome is not approved by the Majority Creditors.
- Participants in the auction shall acquire any right, claim or demand from the present announcement or from their participation in the auction, against the Liquidator, for any cause or reason.
- Transfer expenses of the assets for sale (stamp duty, notarial and mortgage fees, rights and other expenses for drawing up topographical diagrams as required by law (51/77), etc.) are to be borne by the Buyer.
- Those taking part in the auction will be committed to keep the enterprise operating in its present form.

For any information, interested parties can apply to:  
a) The head office of G.E.E.S.A. S.A.  
Directorate of Public Holdings  
87 Stourmari Street, 1st Floor  
Tel: 361 8249 (5 lines) Fax: 361 8250  
b) GREEK EXPORTS S.A.  
17 Panepistimiou Street (1st floor)  
Tel: 361 8249 (5 lines) Fax: 361 8250

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Principal features include:

- Freehold Regency style mansion set in 7 acres
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For further information contact the Joint Administrative Receiver, Paul Jellery, KPMG Peat Marwick, PO Box 730, 20 Farringdon Street, London EC4A 4PP. Tel: 071 236 8000. Fax: 071 248 1790.

KPMG Corporate Recovery

BUSINESS FOR SALE  
Metex Ceilings Ltd

The Joint Administrative Receivers offer for sale the business and assets of Metex Ceilings Limited, based in Hayes, Middlesex. The company specialises in the distribution of suspended ceiling systems, partitions and raised floors.

Principal features include:

- Three trading locations: two leasehold properties - 16,500 sq ft nr Heathrow and 5,000 sq ft in Birmingham plus a Leeds based subsidiary (not in receivership)
- Audited annual turnover for period ended March 1992: £2.8m
- Export to eight overseas locations
- Large customer base
- Excellent reputation for quality and service

For further information please contact Mr Michael Powell, Levy Gee & Partners, Wetten House, 56 Dingwall Road, Croydon, Surrey CR0 0XH. Tel: 081-631 8369 Fax: 081-631 8402

INVITATION

for expressions of interest in acquiring the stock of ELEVME S.A. in MEVIOR S.A. MINING AND INDUSTRIAL MINERALS. In line with the Greek government's privatisation programme, ELEVME S.A. (currently under liquidation), as major shareholder in MEVIOR S.A. MINING AND INDUSTRIAL MINERALS, intends to sell its stock in this company.

SUMMARY PRESENTATION OF MEVIOR S.A.

The company was established in 1981 with the purpose of prospecting, exploiting, processing and marketing all kinds of minerals and products derived therefrom, acting directly or on behalf of third parties. In addition, the company may participate in other companies or operations with similar or related objectives.

The share capital of the company amounts to Dr 500,000,000 75.71% of which is held by ELEVME S.A. and 24.29% by MEVIOR S.A. The company is now active in the production and marketing of Feldspar, Quartz, Silica sand, Quartzite, Wolframite.

ESSENTIAL FINANCIAL DATA

1992 (in Drs)	1991 (in Drs)
Total Assets	635,295,586
Net Worth	552,586,333
Turnover	212,161,048
Net results as at 31.12.92 (Profit)	3,639,294

PROCEDURES

- In phase I, interested parties are invited to submit in writing their non-binding expressions of interest within twenty (20) days.
- In phase II, potential bidders should express their interest not later than 23rd August 1993.
- In phase III, ELEVME S.A. will supply interested parties with an offering memorandum describing the activities and operations of MEVIOR S.A. Prior to this, potential bidders must sign a confidentiality agreement with ELEVME.
- Following the completion of phase III above, potential bidders will be invited to submit their binding offers, accompanied by a bank guarantee, details of which will be given in the bid invitation.

For any further information, interested parties may apply to the Liquidators of ELEVME at 18, Kifissias Avenue, 151 25 Marousi, Greece. Tel: +30-1-464-3820 Fax: +30-1-464-3827 or to MEVIOR S.A. P.O. Box 11192, 541 10 Thessaloniki, Greece. Tel: +30-56-394-6155 Fax: +30-56-394-6169 Attn: Mr. G. Anastasiadis.

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AUCTION

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BUSINESSES FOR SALE

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FINANCIAL TIMES

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- Annual support/maintenance contracts exceeding £150K
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For further details contact the Joint Administrative Receivers, Roy Welsby and Edwin Antill, Grant Thornton, 115 Edmund Street, Birmingham B3 2HJ. Tel: 021 212 4000. Fax: 021 212 4014.

Grant Thornton

The U.K. member firm of Grant Thornton International, authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

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Enquiries to: I C Powell FCA, Price Waterhouse, York House, York Street, Manchester, M2 4WS. Telephone: 061 228 6541 Fax: 061 236 1268

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- Fully fitted operational businesses.
- Combined turnover for year ending 5th April 1992 circa £1.47 million showing overall Gross Profit of approximately 26-9%.
- Estimated combined number of NHS items 15,750 per month (average)

Please contact: Stephen Jones/Tan Naylor

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## BUSINESS AND THE LAW

## Ruling on PVC overturned



In an opinion of the European Court of Justice, Advocate-General Walter Van Gerven says the judgment of the Court of First Instance in a case concerning polyvinylchloride should be set aside. The case should be sent back to the CFI for outstanding issues to be dealt with.

The case concerned a Commission decision to fine certain companies for anti-competitive behaviour in the supply of PVC. The companies applied to the court to have the decision annulled.

The CFI found that the decision was not-existent in that there had been a manifest breach of the principle of "inalterability of the measure adopted", that the decision was not authenticated and that the member of the Commission responsible for competition matters who signed the decision did not have the competence to do so. The Commission appealed to the European Court.

The advocate-general first rejected a claim by the companies that the Commission had not lodged its appeal in time and that it should not therefore be heard. He then dealt with the issue that changes had been made to the decision in between the time when it was adopted by the collegiate body of Commissioners and the time when it was notified to the companies.

The CFI had ruled that the fact that the changes were more than mere spelling or grammar amendments meant that the principle that a measure adopted by the Commission could not be altered - the "inalterability" principle - had been breached.

The advocate-general said that the CFI had used the wrong test in making its decision on this point. Instead of examining the extent of the changes made, the CFI should have examined the effect of those changes on the companies and whether the changes had materially affected their understanding of the Commission's decision against them, and thus whether their legal position had been adversely affected. The CFI's findings on this point, therefore, were struck down by the ECJ.

The advocate-general moved to

the issue of authentication. The problem arose in the context of the fact the decision was authentic in five official language versions. The full Commission had adopted the final decision in three of those versions - English, French and German - but had left the commissioner for competition to adopt the other two remaining versions, namely Dutch and Italian.

The CFI had ruled that the Commission had no power to delegate the right of adoption; and that only the Commission could adopt authentic texts. The advocate-general disagreed. He said it was permissible for the Commission to delegate to a commissioner the power to adopt the text of a decision which had already been adopted by the full Commission in another language version. Essentially, the task entrusted to the commissioner was one of practical execution or internal organisation, capable of being delegated.

As to whether each decision adopted by the Commission should be signed by the president and secretary-general of the Commission, the advocate-general found that, although the Commission had breached its own internal procedural rules in this instance, the breach was not such as to nullify the decision in question.

This was because the president and the secretary-general had signed the minutes of the meeting at which the decision in question had been adopted by the full Commission, and that, as the minutes accurately reflected the contents of the decision, the rights of the companies concerned - that the decision as notified to them individually corresponded to the decision taken by the Commission - had not been breached.

Finally, the advocate-general found that the fact that the decisions individually notified to the companies concerned had not been signed by the commissioner for competition was irrelevant. The decision had clearly been adopted by the full Commission and its legal effects were not hindered by lack of a signature.

C-137/92 P: *Commission v BASF AG and others*, opinion of Mr Advocate-General Van Gerven, June 29 1993.

BRICK COURT CHAMBERS, BRUSSELS

As the Goode Committee continues its review of pensions law in the light of the Robert Maxwell affair, the ability of pension fund members to pursue their grievances through the courts received a considerable boost last week.

The High Court confirmed an order giving members of two funds run by Melton Medes, an unquoted Nottingham-based conglomerate, the right to use pension fund moneys to pay their legal costs so as to enable them to continue their action against the pension funds' trustees, Mr Nathu Ram Puri, the Melton Medes chairman, and Mr James Philipotts, its chief executive. This is the first time such an order has been made by the courts. It provides a very important means of safeguarding the rights of the members of pension funds that are controlled by their employers, according to Mr Sean Hand, a partner of the solicitors acting for the pension fund members, Dibb Lupton Broomhead.

Allowing pension fund members to use the fund to finance legal action against the trustees "could go a long way to meeting the greatest inadequacy of current pension scheme regulation, namely, the inability of beneficiaries to obtain redress for their grievances", he says.

Company law went through a similar process over the right of minority shareholders to be indemnified by the company against the costs of any legal action brought on its behalf, he says. That right was enshrined in statute law by the 1980 Companies Act.

"Maybe it is time that pension fund members were given a similar statutory right to be indemnified by their funds. The Goode Committee should take note," he adds.

The Melton Medes saga began in 1986 when Robert Fletcher (Greenfield) and Robert Fletcher (Stoneclough), two paper mills previously owned by the Imperial Group, were sold to a subsidiary of Melton Medes.

Shortly after the sale went through, the new trustees of the funds, Mr Puri and Mr Philipotts, sanctioned a £1m loan from the two funds to the parent company at an interest rate of only 2 per cent. The loan was secured by a second charge on freehold properties of the Robert Fletcher mills which had already been charged to Lloyd's Bank.

When employees discovered that pension fund money had been used to finance an inadequately secured loan to Melton Medes at an uncommercial rate of interest, they became very concerned about possible losses to the fund.

But their concern turned to alarm when the loan was repaid, not in cash, but in a transfer of shares

## Redress for a grievance

Robert Rice on how some employees gained access to pension funds



James Philipotts: one of the pension funds' trustees

from Melton Medes in two small quoted companies, Delaney Group and Marling Industries, in which Mr Puri's companies had large stakes. Indeed, Mr Puri was chairman of and had a controlling interest in Delaney.

Since the transfer, the shares in both companies have plummeted by more than half.

In March 1992, the plaintiffs, seven members of the pension funds, decided to sue for breach of trust both in relation to the £1m loan and the transfer of the shares.

The launch of the main action was followed four months later by a second action seeking disclosure of certain documents to the plaintiffs as beneficiaries of the funds, the appointment of judicial trustees, and an order to prevent further disposition of the funds, pending the hearing of the main action.

Both actions were originally funded by the plaintiffs' union, the Graphical Paper and Media Union (GPMU). But when it became apparent that the costs of a long, drawn-

out court battle would be too great to expect other members of the union to fund, the GPMU withdrew.

In January this year the plaintiffs applied to Mr Justice Vinelott for an order that the costs of the actions should be paid out of the pension funds, at least until the defendants had handed over the documents requested and they had had time to inspect them.

Mr Justice Vinelott was originally against granting such an order on the basis that it might be possible for the two sides to reach a compromise on the appointment of new trustees who could then take up the members' grievances.

In March, however, the position was further complicated by the launch of a parallel action against Mr Puri and Mr Philipotts by the Securities and Investments Board, alleging breach of the Investment Management Regulatory Organisation's rules in relation to the original £1m loan.

Negotiation between the two

sides failed. Mr Justice Vinelott confirmed in a judgment given last week that he would grant the plaintiffs the pre-emptive costs order and appoint Mr Neil Cooper and Mr Ipe Jacob, partners in accountants Robson Rhodes, as judicial trustees of the funds.

The judge said that what the plaintiffs were seeking was an order that as representative beneficiaries, they should be entitled to pursue the claims on behalf of the trust estate and be entitled to the same order to which they would have been entitled if they had been trustees acting with the authority of the court.

There is clear authority, he said, for the courts to allow trustees who wish to protect themselves from possible personal liability for the costs of prosecuting or defending proceedings to fund those proceedings at the expense of their trust funds.

Mr Justice Vinelott then drew a distinction between conventional trust funds and pension funds.

"In the case of a pension fund, unlike a conventional trust fund, the beneficiaries have themselves contributed both in cash and in service to the employer," he said.

"They are entitled to be satisfied that the trust fund to which they have contributed is administered in a way which reflects their legitimate expectations by trustees in which they have full confidence."

This is a new and very important statement of the law, according to Mr Hand.

"It appears to be heading towards saying pension fund trustees must be accountable to their beneficiaries," he said.

The judge then went on to say that he intended to grant the plaintiffs' application for the appointment of judicial trustees because it was unjust in the context of a pension fund, that the administration of funds to which members had contributed and which required the continual exercise of discretion, "should be left in the hands of persons in whose fairness and probity the beneficiaries no longer have confidence".

The uniqueness of this decision lies not so much in the costs order itself, says Mr Hand, but in the mechanism the judge used to resolve the problem - combining the granting of the costs order with the appointment of judicial trustees.

In a conventional trust, this type of order would be impossible, he adds. The court would never remove existing trustees and substitute judicial trustees until the substantive case had been argued.

But the judge made it clear that different principles should apply in the case of pension funds. Mr Hand said the main action could now go ahead.

## LEGAL BRIEFS



## Legal auditor damaged client relationship

The trend in the US towards companies employing independent legal auditors to vet their law firm bills may be reined back by a legal action which has been launched by a Los Angeles law firm claiming a legal auditor irretrievably damaged a 20-year relationship with a valued client. Allen Rhodes & Sobelstein is suing Mr Bruce Reales of Legal Audits Inc of St Louis for \$3m in economic damages plus punitive damages for defamation and interference with business after the "irreconcilable" miscommunication the firm charging rate for client RTT Hartford Insurance. Allen Rhodes claims that the auditor's comments led prospective clients and even judges to inquire about rumours that the firm had been indicted for fraud; was intending to file for bankruptcy; had laid off 17 lawyers; and was being sued by Hartford for several million dollars.

Important changes to the law covering goods bought in bulk have been put forward by the law commissions in England and Scotland. Under existing law a person who buys a specified quantity of goods forming part of an unidentified bulk - say 100 tonnes of wheat stored in a warehouse containing a much larger quantity - will not actually own the goods until they have been ascertained which is normally not until delivery. The thinking behind this is that a person cannot own something until they know precisely what it is. Although logical this causes problems for commodity traders in particular. The commissions recommend in future that buyers should be able to become owner not of particular grains of wheat but of a proportionate part of the bulk corresponding to the quantity bought and paid for. A solution of this type has been in operation in the US since 1906.

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ARTS GUIDE



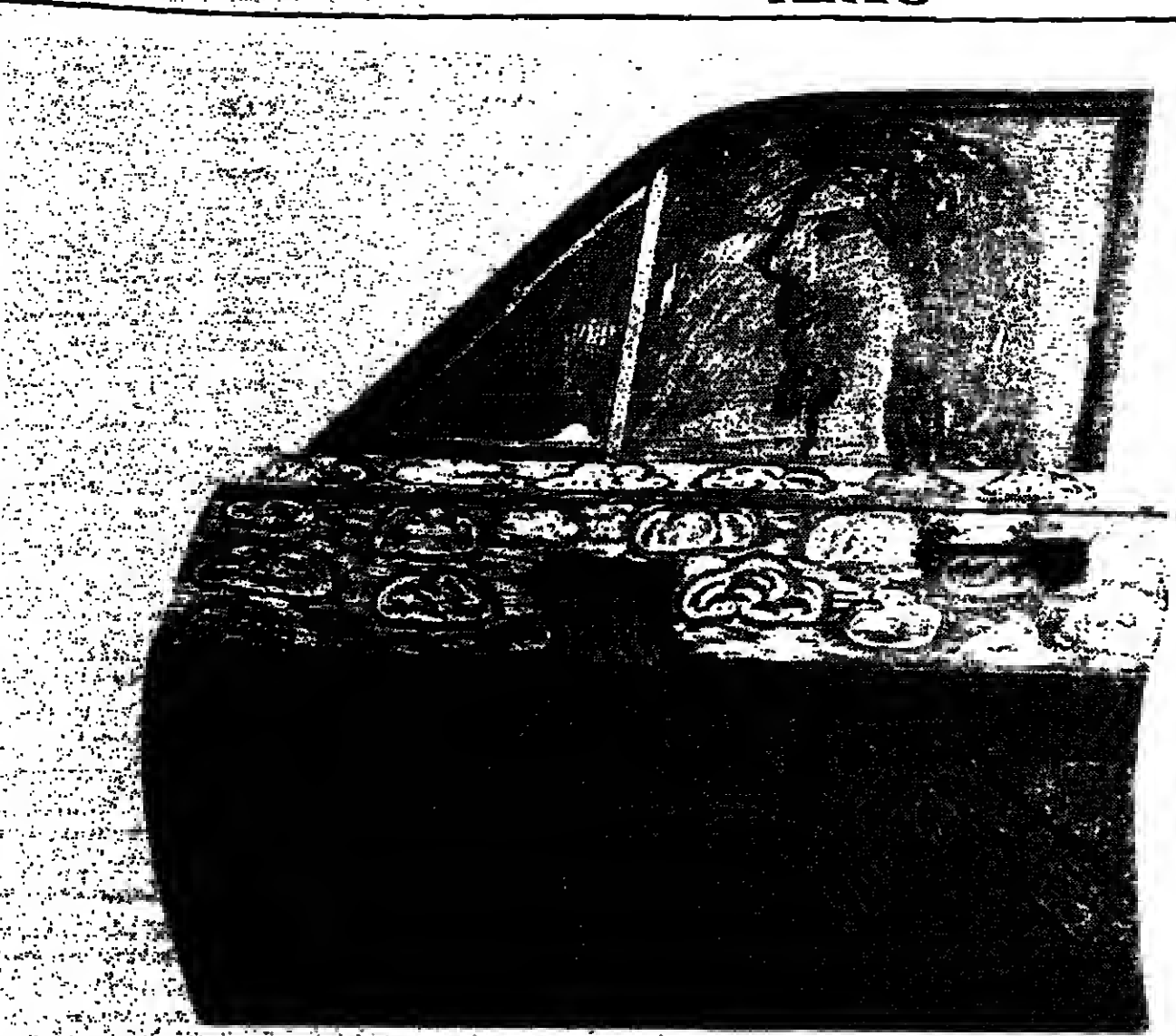
The resurgence of aboriginal art throughout Australia over the past 20 years is nothing short of a triumph for a people who until as late as the 1960s were believed to have been driven to the verge of extinction. The surviving Koori, Murrumbidgee, Yolngu and Anangu people with their 300 languages and culture rooted in the religious significance of the land, are now making considerable progress in their political and cultural endeavours. The survival of aboriginal art, and most importantly, the development by the artists and their communities of ways of making it available to a non-aboriginal audience both inside and increasingly beyond Australia, have been crucial in this regeneration. *Aratjara*, now at the Hayward Gallery, is the largest exhibition of aboriginal art ever to be seen in Europe.

Approaching such unfamiliar work always presents difficulties. Does one read lots of books beforehand and go in armed with theory or just plunge ahead and hope for the best? I opted for the latter, making my first circuit guided only by my own eyes. Just looking, several features were immediately obvious - the stylistic differences between various regions, and a much wider range of subjects and styles than expected. It also seemed that initial "judgment" of the work was, as in any other gallery context, made on the basis of contemplating its form, composition and colour.

There were surprises - the large, brightly coloured canvas "My Country", 1992, by Ginger Riley Munduwalawala outstanding in a room full of ochre and brown cross hatched bark paintings by his fellow artists from Arnhem land, or the politically charged paintings, screen prints and photographs from the urban south east, stylistically familiar to those who know their art of the central and western desert, stylistic progression being to become evident, as images obviously still based on religious or ceremonial markings were painted first on composition board and then on canvas.

The last room is filled with enormous paintings, which although composed of signs and symbols "readable" to those who know their language also operate as superb examples of what we would term abstract art. Although study is needed to appreciate the full meaning of the images or the techniques used to create them, works such as the superb "Jardimwapa Jukurrpa" or "Fire Dreaming" make a powerful impact even before the full significance of the various elements of their composition is elucidated.

"Fire Dreaming", a communal work created by 21 women, and several men of the *Yandjirrpa* community, was specially commis-



Acrylic paint on a car door: 'Untitled', 1990, by Mavis Homes Petyarre from Northeastern Central Australia

## Glimpses of another world

Lynn MacRitchie admires the work of aboriginal artists at the Hayward

sioned for the exhibition and presents a "picture" of the community and its location, including its sacred sites, painted in the brightly coloured dotted patterns now identified as "western desert art". By its use of carefully selected images from the traditional ground or body paintings presented as a wall hanging, the piece demonstrates the developments aboriginal artists have made both formally in their work and in its mediation to the rest of the world.

What is most striking about the "Fire Dreaming", or about the work of Ginger Riley, or that of Rover Thomas Jukurrpa, one of two aboriginal artists who represented Australia

at the Venice Biennale of 1990, is the confidence and strength of purpose of the artists. Using the expanded palette that acrylic paints have made available to them, they have reinterpreted their traditional themes specifically in order that they may be seen by non-aboriginal eyes; the concept of "outsiders" seeing the paintings is thus inherent in their composition and execution.

Those who worry about "authenticity" or that the artists somehow lose out by showing in western style galleries or selling in the western art market which flourishes in Australia should calm their fears. It is just for that market that these works have been adapted and

created. And this is a good thing; it means that the aboriginal artists are in control. The images which they trade have been created for that purpose, passed by their elders and ritual guardians as appropriate for strangers' eyes. Other, secret, images continue to be used for traditional religious purposes.

These works designed for us still offer a glimpse into another world, where artists and their communities share a dynamic relation to their creation myths, the representation and observation of which gives purpose and meaning to their lives, and now also provides a useful tool to help redress the balance against the incoming society which

has been dominant for 200 years. The creation of "Fire Dreaming" was accompanied by "Big dancing ceremony, men, women, girls... really big business," according to Dolly Daniels, one of the artists who worked on it.

These remarkable pictures command respect, both for their beauty and sophisticated combination of the assumptions of our opposing cultures, permitting a glimpse of an ancient way of life our own ancestors tried so hard, but thankfully so unsuccessfully, to destroy.

Aratjara: Art of the first Australians, July 23-October 10, Hayward Gallery, London SE1.

### Theatre/Alastair Macaulay

## Beautiful Thing

When people ask "But where are the new plays?", there are several different kinds of answer to give. But as good a reply as any is simply to say "Try the Bush." The Bush Theatre, above the Bush Pub on the corner of Shepherd Bush Green, has been in the forefront of presenting new drama for years now. There are other places - e.g. the Royal Court - whose new plays may be more innovative in sheer writing and structure, but at the Bush (thanks to its artistic director Dominic Dromgoole) there is a real house style, and a real alertness to the way people live today. Play upon play there seems to be tapped right into the way things are, and audiences lap up each show.

Watching Jonathan Harvey's new play, *Beautiful Thing*, you can feel how easily its audience follows every current and allusion. Its action occurs in a modern block of tiny flats in South East London, and - like several recent Bush plays - it is mainly about adolescence. In particular, *Beautiful Thing* is a story of homosexual love between two teenage boys in next-door flats, but its most touching achievement is the gradual, oblique, funny, rounded way that it leads up to this. These boys are just the youngest of the play's five characters. What happens between them is affecting because you have come to know them in context.

Jamie lives with his mother, Sandra, a harried currently dating Tony, the latest in a line of boyfriends. She (the boy next door) lives with his brother and their violent father, who frequently beats him. Jamie's other next-door neighbour, Leah, is another teenager who leads a life of cheerful boredom only lit up by her obsession with the life and songs of the late Mama Cass. The walls are like paper. The play catches, very surely, the numerous tolerances and intolerances that are the fabric of daily life on any housing estate.

Jamie and Ste, who are the only characters who seem fully rounded from the very start here, are excellently played by Mark Letheren and Jonny Lee Miller. Body language,

mastery of accent, facial expressions: all these are used with such psychological accuracy that you hang on every tiny event as if it were part of a thriller. (Just watch how often both boys avoid looking each other straight in the eye in Act One; and how naturally they do so in Act Two.)

There are weaknesses. The ending, charmingly sentimental, is too rose-tinted. There could be yet more tension - and, later, more release - between Jamie and his mother Sandra (Patricia Kerrigan); their big fight is too obviously choreographed. Both Sandra and Leah look at first like comedy-cartoon "types" (sassy, quarrelsome, outspoken cockneys), but it is part of Harvey's skill - part of his *point* - is that they turn out to be as complex and troubled as Jamie and Ste.

Interestingly, Kerrigan's acting gets more relaxed as her part grows larger: but Sophia Stanton, who acts Leah exactly as she acted in the Bush's last play, cannot handle the element of despairing escapism that becomes more startling as the play progresses. But the director, Hettie Macdonald, has brought out so much truth from Harvey's play that any such flaws are but shadows. Like most of those about me, I followed the action with my heart in my throat - and, while applauding, blinked back the odd tear.



Patricia Kerrigan

### Concert/Richard Fairman

## Handel's 'Deborah'

There is always an audience for the little-known works of well-known composers. While a record company knows it may struggle to find buyers for unfamiliar composers from Albéniz to Zemlinsky, there will be no trouble if the disc has Mozart or Handel on the label.

Even today there remain a few large-scale works by Handel that await successful recordings. The King's Consort recently performed and recorded the opera *Ottone*. Now it has turned its attention to the equally obscure *Deborah*, an oratorio. Obscure, but not unfamiliar. Handel, always ready to borrow from music he had written earlier, outdid himself in this score and whole sections from other previous works keep surfacing.

*Deborah* is a patchwork oratorio, expertly sewn together, the new positioning of choruses and arias often as good as the old. It won popular acclaim when it was first performed in 1738 and a fairly warm reception at the Proms on Sunday. With over 100 singers and instrumentalists taking part in the premiere was the magnificence of the music which impressed early audiences ("his excessively noisy", wrote one commentator).

Robert King added to that 100, topping up the choral numbers. In Handel's day the figures for choirs

always look small against the instrumentalists to the extent that one wonders how the balance can have worked. King combined the Choir of New College, Oxford, with boy chorists from Salisbury Cathedral and was rewarded with some of the best choral singing that his group has had - a firm, decisive, sparkling ensemble.

This was all to the good, as the choral sections are among *Deborah*'s most striking moments. Choruses of Israelites are pitted against the Priests of Baal, rivaling each other with exhortations to war, for which the King's Consort armed itself with more rhythmic punch than the conductor usually delivers.

The heroine Jael, who seduces the enemy commander and nails his head to the ground with a tent peg, does not get very bloody-thirsty music, but Susan Grillon endears you to give her some character. Yvonne Kenny was the prophetess Deborah and Michael George the bass Abinoam, both singing well but in need of more personality. James Bowman is fully at home with the Handel style and commanded the music of Barak with easy nonchalance. The vocal decorations generally sounded as if they might have been improvised, but they added little of worth. Surely singers in Handel's day would have wanted to show off more?

Cost performances until August 7, *Die Zauberflöte* until August 29

### Salzburg Festival/Max Loppert

## 'Così' and 'Zauberflöte'

before opening night. The final choice, Erwin Ppilits of the celebrated Seraphim Theatre in Vienna, had originally come on board as Joosten's designer, and had himself never directed opera before. Tales of troubled rehearsals were echoing well beyond city limits before the festival began. And then Cecilia Bartoli, scheduled to make as Desdemona her much-awaited Salzburg debut, caught laryngitis, to be replaced on opening night by the spunky Kiriakos Stamatias.

In such circumstances the fair-minded British visitor longs to place himself on the side of the underdog. Unfortunately, the show itself puts some fairly formidable obstacles in his path. There is an intentionally dingy, downmarket quality to the design (drab modern dress, movable screens here or else with scabbed paint-patches; a pair of MFI-style wooden tables and chairs the only furniture).

The purpose, it seems, was to

scrape from the opera its sunny-side-up class-divertissement surface and analyse the potent, timeless emotional currents beneath. This is not intrinsically an unworthy aim - and, outside Salzburg, by no means an unfamiliar one. Here, however, the design colours, motifs and stratagems are at once too unvaried, too ill-suited to the awkwardly-shaped Kleines Festspielhaus stage, and far too poorly lit to allow any chance of fulfillment.

Until the later parts of Act 2, in which the strengths of an attractive young cast begin to register, the whole show seems of undergrated calibre: ineptly plotted, fitfully characterised, uncertainly motivated in its search for novelty. Whether it is beyond rescue is a moot point - I myself should need persuading at gun-point to sit through Act 1, as it stands, a second time.

Certainly, though, there are basic

musical strengths to build on. Christoph von Dohnányi's conducting of the Vienna Philharmonic is muscular yet flexible, highly responsive to singers' demands, if sometimes distinctly un-Mediterranean in temper. (Dohnányi, not a favourite of the Salzburg public, received an unjust share of the final-curtain hoos.) And already Jennifer Larmore (a punky, rich-toned Dorabella), Bruce Ford (a serious, impassioned, beautifully long-phrased Ferrando), Solvay Kringelbohn (an inexperienced Floridilla of radiant potential), Jeffrey Black (a firm-voiced, slightly bland Ongilemo) and Ferruccio Furlanetto (Alfonso) have proved themselves worthy of the engagement.

More happily for Mortier, he has already one "classic" Mozart staging of his own to balance the books - the 1991 *Zauberflöte*, now magically revived under Bernard Haitink's superbly strong musical direction. People who know Johannes

Schaaf's views of Mozart only from those four sourly misanthropic Covent Garden productions would find this show the most gratifying of surprises. The location is reinvented - this is a South-East Asian *Fête* of exotic detail yet strictly responsible scenic perspective, and it fills the vast Grosses Festspielhaus stage as though creating a new world.

In Act 2 the move from the local to the eternal is judged with extraordinary and moving acuity, yet the mood stays light. The cast, as youthfully fresh as the *Così* but far more rewardingly employed, is without weakness, led by Deon van der Walt's manly Tamino, René Pape's magnificent Sarastro, Ruth Ziesak's tender Pamina, Sumi Jo's gloriously unfettered Queen and - best of all - a warm-voiced, adorably local-accented, Papageno from Anton Scharinger. The Vienna Philharmonic and choir from the Vienna State Opera help make this highest of high-house *Flutes* one of the most intimate, and one of the best.

Cost performances until August 7, *Die Zauberflöte* until August 29

## INTERNATIONAL ARTS GUIDE

### AMSTERDAM

Concertgebouw Tonight: 1 Virtuosi at Rome play concertos by Vivaldi, Corelli and Boccherini. Thurs: Paul Masi conducts Lithuanian National Philharmonic Orchestra in works by Vasks, Grieg and Tchaikovsky, with piano soloist Jean-Marc Luisada. Sat: Roderick Shaw conducts Academy of the Beethoven in choral music by Bach. Next Mon: Thierry Fischer conducts Geneva Chamber Orchestra in Mozart, Haydn, Fauré, Ravel and Frank Martin, with violin soloist Marike Blankensijn. Aug 15: Gidon Kremer. Aug 17: Dmitri Hvorostovsky. Aug 21, 25: Royal Concertgebouw Orchestra (24-hour information service 675 4411, ticket reservations 671 8345).

### ATHENS

Odeon of Herodes Atticus Fri and Sat: National Theatre of Greece in Sophocles' *Antigone*. Aug 11, 12: Peter Hall Company production of Aristophanes' *Lysistrata* (322 1459).

Epidauros The annual festival of ancient drama in the 1400-seat amphitheatre at Epidauros has performances on most weekends throughout the summer. This week's performances on Sat and Sun are Euripides' *The Trojan Women*, staged by Art Theatre Karolos Koun. Next week: Euripides' *The Bacchae*. Tickets are available daily at the Athens Festival box office (322 1459) or at the theatre of Epidauros on Thurs, Fri and Sat (0753-22006).

### CHICAGO

RAVINA FESTIVAL Tonight: Tony Bennett. Tomorrow: Dolly Parton. Thurs: Shlomo Mintz violin recital. Fri, Sat, Sun: Riccardo Chailly conducts Chicago Symphony Orchestra in three different programmes, featuring works by Webern, Beethoven, Stravinsky, Mendelssohn, Shostakovich, Haydn and Rimsky-Korsakov, with soloists including Yo Yo Ma and Maxim Vengerov. Next Mon: Victoria de los Angeles. Aug 12: Les Arts Florissants. Aug 13: concert performance of *Fidelio*. Aug 17, 18, 19: Israel Philharmonic. The festival runs till early September (Tel 312-728 4642 Fax 708-433 4592).

### COPENHAGEN

Tivoli Tonight: Boje Skovhus, accompanied by Helmut Deutsch, sings Wolf Lieder. Tomorrow: Copenhagen Chamber Soloists play works by Gade, Mendelssohn and Vivaldi. Thurs and Sat: Gary Bertini conducts Verdi's *Requiem*. Fri: Mariss Jansons conducts Oslo Philharmonic Orchestra in

Stravinsky, Bartok and Richard Strauss, with viola soloist Yuri Bashmet. Sun: Dmitri Khatenko conducts Danish Radio Symphony Orchestra in works by Mozart, Tchaikovsky and Prokofiev. Aug 12: Murray Perahia. Aug 17, 18: Chamber Orchestra of Europe. The summer concert season runs till Sep 19 (3915 1012).

### LONDON

THEATRE ● Time of My Life: new play written and directed by Alan Ayckbourn, with cast led by Anton Rogers and Gwen Taylor. Opens tonight (Vaudeville 071-896 9987). ● Here: Michael Frayn's new play, directed by Michael Blumenson, about two people who move into an empty room and begin to construct their life together. Cast includes Ian Glen, Teresa Barnham and Branda Bruce. Till Sep 11 (Donmar Warehouse 071-867 1150). ● Godspell: Andy Crane and Gemma Craven star in a new production of the cult 1970s musical. Music and lyrics by Stephen Schwartz, directed by Lindsay Dolan. Previewing tonight, opens tomorrow, daily except Mon till Aug 30 (Barbican 071-638 8691). ● The Matchmaker: Prunella Scales and Frank Lazarus star in Thornton Wilder's exuberant tale of the inimitable Dolly Levi and her manipulation of the rich and curmudgeonly Horace Vandergelder into marriage. Opens tomorrow, final production of this year's Chichester Festival (Chichester Festival Theatre 0243-781312). ● Cleopatra: David Suchet stars in David Mamet's

much-talked-about drama, directed by Harold Pinter (Royal Court 071-730 1745). ● A Connecticut Yankee: New Shakespeare Company's revival of a rare Rodgers and Hart musical, performed in the garden setting of Regent's Park. In repertory with two Shakespeare plays, *Romeo and Juliet* and *The Taming of the Shrew* (Open Air 071-486 2431).

DANCE Covent Garden Birmingham Royal Ballet winds up its season with Peter Wright's production of Sleeping Beauty tonight, followed by four performances of Kenneth MacMillan's production of Prokofiev's *Romeo and Juliet*. Ends Sat (071-240 1088). Royal Festival Hall English National Ballet: this week's performances are devoted to Rostropovich's production of Swan Lake, daily till Sat. Next week: Frederick Ashton's production of Prokofiev's *Romeo and Juliet* (071-828 8300). BBC PROMS In tonight's concert, Yakov Kreizberg conducts BBCSO in works by Rachmaninov, Chopin and Tchaikovsky, with piano soloist Vladimir Ouchikov. Tomorrow: Jerzy Maksymiuk conducts BBC Scottish Symphony Orchestra in Górecki, Prokofiev and Beethoven, with violinist Anthony Marwood. Thurs at 19.00: Martyn Brabbins conducts BBCSO in first London performance of Judith Weir's *Music Untangled*, plus works by Britten, Dvorak and Prokofiev. Thurs at 22.00: Virtuosi di Roma play Vivaldi and Boccherini. Fri: Richard Hickox conducts first London performance of Robert Saxton's *Viola Concerto* (Paul Silverthorne), plus works by

Rossini, Wolf, Strauss and Mendelssohn. Sat: Mark Wiggleworth conducts BBCSO in works by Strauss and Shostakovich, with soprano Maria Ewing. Sun: Matthias Bamert conducts National Youth Orchestra of Great Britain in *Birchville*, Musorgsky and Gerstwin, with piano soloist Shura Cherkassky. Next Mon: Claudio Abbado conducts Gustav Mahler Youth Orchestra in Musorgsky and Bruckner, with Dmitri Hvorostovsky (Royal Albert Hall 071-589 8212).

### STRATFORD

All three theatres have new productions opening in the coming week. A new promenade production of *Julius Caesar*, directed by David Thacker, opens on Thurs in The Other Place. Wycherley's *Restoration* comedy *The Country Wife*, directed by Max Stafford-Clark, opens next Tues in the Swan Theatre, with previews from tomorrow. Alac McCowan stars in Sam Mendes's new production of *The Tempest*, which starts previewing on Thurs in the Royal Shakespeare Theatre, first night next Wed. This month's repertory also includes *The Merchant of Venice*, *King Lear*, T.S.Eliot's *Murder in the Cathedral* and Goldoni's *The Venetian Twins* (0789-295623).

### WASHINGTON

THEATRE Kennedy Center *The Phantom of the Opera*: Andrew Lloyd Webber's musical, directed by Harold Prince. Daily except Sun till Aug 28 (202-467 4600).

Lansburgh Theater Pirates of Penzance: Interact Theater Company's Gilbert and Sullivan production. Opens on Thurs, till Aug 28 (703-848 2632). Olney Theater Shadowlands: William Nicholson's drama based on the true story of C.S.Lewis and an American woman, opens next Tues for a four-week run (301-924 2739).

### MUSIC

Wolf Trap Tonight: Reba McEntire, country music. Tomorrow: Dionne Warwick and Burt Bacharach. Thurs: National Symphony Orchestra plays music from Hollywood films. Fri: NSO provides live accompaniment for Hunchback of Notre Dame, the 1923 silent film of the Victor Hugo classic. Sat: NSO accompanies *The Circus*, Charlie Chaplin's last silent film. Sun: Peta Seeger and Arlo Guthrie, folk music. Mon: Neville Brothers, soul. Next Tues and Wed: *The Temptations* and Four Tops. Aug 15: Ray Charles (1824 Trap Road, Vienna, Virginia, 703-218 6500). Blues Alley Jazz Supperclub Tonight: Jim Chappell, keyboards. Thurs till Sun: Ruth Brown, vocals/ blues. Next Mon: Andy Narrel and Ray Obiedo (1073 Wisconsin Ave, in the alley, 202-337 4141). Merriweather Post Pavilion Tonight: Allman Brothers Band. Tomorrow: Al Jarreau and David Sanborn. Aug 15: Deep Purple. Aug 17: Beach Boys (301-982 1800). Oregon Ridge Fri: Baltimore Symphony Orchestra open-air concert featuring music by Gershwin and Duke Ellington. Sat: BSO popular concert ending with fireworks (410-783 8000).

### ARTS GUIDE

Monday: Performing arts guide city by city. Tuesday: Performing arts guide city by city. Wednesday: Festivals Guide. Thursday: Festivals Guide. Friday: Exhibitions Guide. European Cable and Satellite Business TV (All times are Central European Time) MONDAY TO THURSDAY Super Channel: European Business Today 0730; 2230 Monday Super Channel: West of Moscow 1230. Super Channel: Financial Times Reports 0630 Wednesday Super Channel: Financial Times Reports 2130 Thursday Sky News: Financial Times Reports 2030; 0130 Friday Super Channel: European Business Today 0730; 2230 Sky News: Financial Times Reports 0530 Saturday Super Channel: Financial Times Reports 0930 Sky News: West of Moscow 1130; 2230 Sunday Super Channel: Financial Times Reports 1900 Sky News: West of Moscow 0230; 0530 Sky News: Financial Times Reports 1330; 2030



**M**r Horst Seehofer, Germany's health minister, should be content. The reforms he launched in January to rein in spending on medicines have proved successful.

The German drugs market, last year Europe's largest and growing at about 10 per cent a year, has been thrown into sharp reverse. Over the first five months of this year sales have fallen by 11 per cent.

## An unhealthy outcome

German reforms have hit drug sales, says Paul Abrahams

German pharmaceuticals: a bitter pill



1992 sales	Domestic sales (DM million)	Market share (%)	As % total pharmaceutical sales of group	As % total group sales
Hoechst	1,550	6.0	16.2	3.6
Bayer	1,050	4.0	14.0	2.5
Boehringer-Ingelheim	876	3.6	23.2	18.4
Ciba	950	3.7	13.3	5.3
Boehringer-Mannheim	900	3.5	20.0	10.0
Schering	730	2.8	18.7	14.4
Astra	660	2.5	15.6	15.0
Ratiopharm	575	2.2	10.0	100
Bristol-Myers Squibb	550	2.1	5.8	3.3
Merck, Sharpe & Dohme	500	1.9	3.7	3.5

Source: Morgan Stanley Research

pharmaceuticals group, says that, on present trends, Germany's drugs bill this year could undershoot by as much as 10 per cent.

For some companies the initial impact of the reforms has been severe. The BPI survey of companies representing 61 per cent of the German market found that more than half had seen falls in domestic turnover of 30-50 per cent in February.

Small and medium-sized groups, which have little international exposure and often sell traditional herbal-based medicines, have been hit hard.

Madax, for example, a small family-owned group in Cologne, has seen domestic sales fall by 30 per cent in the six months to June.

The downturn has also hit the giants of the German industry. Bayer has seen its sales fall by 10 per cent so far this year after an increase of 9 per cent for the whole of last year.

Boehringer-Ingelheim expects its domestic sales to drop this year by between 10 per cent and 12 per cent, leading to a reduction in turnover of up to DM100m.

The German subsidiaries of

foreign groups are suffering too. Astra, the fast-growing Swedish group and seventh-largest drugs company in Germany, posted first quarter sales down by 16 per cent in what is its largest single market.

Ciba, the Swiss group and fourth-largest pharmaceuticals company in Germany, reported a 17 per cent fall in German turnover during the first six months of this year, compared with an increase of 9 per cent in the whole of 1992.

The only groups to have benefited from the reforms are companies selling cheaper generic products the patents of which have expired.

Doctors are turning to cheaper medicines to keep within their budgets.

Dr Michael Steiner, vice-president of The Boston Consulting Group, management advisers, says generic groups, which include the German groups Ratiopharm and Hexal, have doubled their market share to about 20 per cent so far this year.

While the generics companies have welcomed the reforms the reaction of the drugs groups was initial incredulity. "For the first three

months the pharmaceuticals groups couldn't believe it," says Dr Steiner. "They had invested millions of D-Marks to explain the merits of their drugs. But all that mattered for doctors was price. It was then they realised the impact of the reforms would be lasting."

The fall in sales has forced most groups to introduce short-term working and cut jobs. BASF Pharma, BASF's drugs division formerly known as Kooil, will cut its 3,755-strong German labour force by up to 15 per cent this year, while Boehringer-Ingelheim is making up to 300 of its 2,500 workers in Germany redundant.

Madaus, the small German group, has cut its domestic workforce by a third, from 1,200 to 800.

The overriding concern for drugs companies is that Mr Seehofer could introduce further cuts in doctors' budgets next year. "Nothing is more encouraging than success. The government have seen that it costs nothing politically to push these measures through. We expect to be squeezed more," says Mr Martin Vischer, head of Ciba's pharmaceutical division.

Mr Seehofer has been able to head off doctors' protests by promising not to examine the issue of their fees.

In any event, the structure of the pharmaceuticals industry will never be the same. "Cost-cutting can only go so far," says Dr Ried at Boehringer-Ingelheim.

"The small and medium-sized companies with little business outside Germany will disappear or merge. They just won't have the means to develop new medicines."

Consolidation has yet to take place because pharmaceutical companies have traditionally been expensive and their prices will need to fall before big groups become interested in buying.

Nevertheless, Mr Vischer at Ciba believes consolidation is inevitable. "Within two years, the landscape will be unrecognisable. The smaller companies will have gone. The generic manufacturers will still be winning market share and the research-based companies will be trying to adapt. And that will be painful."

The aim of reform was to force the pharmaceuticals groups to cut costs and deliver better value for money. Only those which manage to combine these twin imperatives will survive. The one unexpected outcome of reform has been the severity of its impact on small and medium companies, some of which are now in danger of being squeezed out.

## The chancellor's dilemma: an inside view

# Don't pay the rich to be ill



Our social security system exists to help the poor. That should not be too expensive. We could guarantee the poorest 10 per cent of the population an income of £100 a week for £25bn. Yet the social security budget is more than £70bn, growing rapidly out of control, and still the streets are full of beggars.

This situation has occurred because we choose to perpetuate a powerful myth: that the social security system is an insurance system, to which we make contributions (like an insurance premium), as a result of which we are entitled to benefits if and when we become old, sick or unemployed. The result of this is that some £40bn of the £70bn budget is spent on the so-called contributory benefits - state pensions, unemployment and sickness benefit. A substantial part of this money goes to people who are not poor.

Why does a Conservative government dedicated to the principle of privatisation run this large nationalised industry, an insurance scheme that ignores all the basic actuarial principles and makes a massive loss? The answer is partly historical and partly that, by giving money to people because they meet certain conditions (old, ill, out of work) rather than because they are poor, the government hopes to minimise the poverty trap.

The poverty trap - very high marginal rates of tax on the incomes of the poor - is an inevitable and unwelcome consequence of means-testing - giving money to the poor and taking it away as they get richer. Means-testing is necessary to target resources and keep down costs. But it does impose a high rate of tax on those trying to escape from poverty by their own efforts. Better, many believe, to tackle

the causes of poverty, and leave people an incentive to work.

It is a beguiling argument. The only problem is that it has turned out to be incredibly expensive. If social security payments depend on anything but income, you end up giving away large swathes of a £70bn budget to well-off pensioners, well-off families with children, and well-off invalids.

But targeting is not the only thing wrong with the present system. It also faces the classic "moral hazard" problem that confronts all insurers: the existence of the insurance makes the condition insured against more likely. If you promise to pay people money when they are ill, they are more likely to become ill.

If you promise to pay them if they become single parents, they are more likely to become single parents. The same is true, at the margin, even of disability and unemployment.

Insurance is based on the principle that an accident, like lightning, strikes a helpless victim. In most cases, this paradigm is accurate. Most of those who become unemployed, sick or disabled cannot change their condition by an act of will. But what about the marginal cases? When does a backache become so bad that you really have to stop work? And who decides that it is that bad - you, or your doctor?

We all face days when we feel unwell. Those with highly paid, interesting jobs are, unsurprisingly, more inclined to struggle into work than the lowly paid in boring jobs. So if the latter are offered a new benefit when they are unwell that is more generous than unemployment benefit or the state pension, some who previously chose to work despite chronic illness or disability

will no longer do so. As more learn about this benefit, the number of claimants soars. To prevent malingering, the state has to ask doctors to judge whether these people are "really" sick. And the natural response to budgetary pressures is to tighten up the medical criteria - to a predictable political outcry.

The history of invalidity benefit - payable tax free to those who are "incapable of work because of illness or disablement" - shows what happens if you give people money because they are sick and ask doctors to decide who qualifies. The numbers who qualify have increased from half a million in 1978 to more than a million and a half today. And many of them are not poor.

The solution is simple. Don't give money to people because they are sick. Give it only if their sickness makes them poor. The advantages are immense: the state does not have to judge how sick they are; the incentive to mangle is completely removed; the money which goes to the well-off sick is saved; and the decision whether or not to work when somewhat unwell is taken from doctors and given back to the individual.

Unfortunately this radical solution - abolish invalidity benefit and use some of the money saved to make the means-tested benefits more generous - is blocked by the insurance myth, because invalidity benefit is one of the contributory benefits.

It is difficult to defend taking money away from the sick. It is even harder to defend taking from the sick a benefit that they have paid for. So a sensible transfer from better-off, supposedly unwell, people to the genuinely poor is ruled out.

The implications are grim.

The government presides over a poorly targeted system in which benefits for the ill, for the disabled, for single parents, are growing at a frightening speed. The numbers, small 15 years ago, are now large enough to have a macro-economic impact. Successive governments have, with the best intentions, drifted into commitments that are already crowding out other desirable public spending and that are ultimately unaffordable.

In the long run these issues must be addressed. But in the immediate future the most promising way of reining back the budget is to tackle the fast-rate benefits which, though not especially fast-growing, are very large.

An obvious target is the £5bn in child benefit, of which a big share goes to the better off. Means-testing it and clawing it back from them could easily be defended, as child benefit is non-contributory.

The government also has an opportunity to save some of the £77bn cost of the state retirement pension (a contributory benefit and therefore normally sacrosanct) because it is required to equalise the pension age for women and men. It should not hesitate to do so by raising the pension age for women to 65. Failure to grasp that nettle will send the financial markets signal to the government's willingness to tackle its budget problem.

But most important of all, the government must, in its long-term spending review, re-examine the basic principles governing our social security system. Until they are changed, the social security budget will remain an uncontrollable monster.

Bill Robinson

Next week: The missing oil revenue billions. The author is former director of the Institute for Fiscal Studies and was a special adviser to the former chancellor, Mr Norman Lamont.

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

## No simple regulatory answer for BBC

From Mr Robert Phillips.

Sir, The picture of the BBC by Robert Baldwin and Martin Cave (Personal View, July 30) is a painting done by numbers.

It misses the significance of our annual review, which reflects a clear separation of powers (currently being carried out) between the governors who, as trustees of the public interest, authorise the BBC's strategy and aims, and the management, which is

responsible for their execution. And it does not recognise that the performance indicators being put in place are more comprehensive and sophisticated than mere audience measurement.

Instead it takes the view that we can top and tail a utility regulator and add the word "broadcasting" to the title. But there is more to public service broadcasting than regulator and client, consumer and sup-

plier. There is more to the BBC than just broadcasting. It is a patron of the arts, a cultural entertainer. There is more to trustworthiness than regulation.

BBC governors are there to protect not the interests of a particular group of shareholders but those of the public as a whole. They and the management have a common interest in providing the range of services that will meet that trust.

It is hard to see how some

three-tiered system could secure even the minimum necessary for compliance - still less to safeguard the BBC's independence (admirable around the world if not always at home) as the governors have done for almost 70 years.

Robert Phillips, deputy director-general, BBC, Broadcasting House, London W1A 1AA

## Maastricht message

From Sir William Nicol.

Sir, When we called up the reporting of the Maastricht votes on our Financial Times database, we obtained every few lines the message:

"Press Alt-H for Help or Alt-Q to Quit."

Is this subliminal advice for government readers? William Nicol, International Institute, George Mason University, 4001 North Fairfax Drive, Arlington, Virginia 22203, US

## Alternatively...

From Mr Neil Cossins.

Sir, It was exciting to read (Technology, "The little engine that could", July 29) that Mazda is to build cars with an engine which emits 600g less carbon dioxide in a year, equivalent to planting 100 trees.

Wouldn't it be easier, and even more environmentally sound, just to plant the trees? 22 Franklin Street, Reading RG1 7YA

## Lysold plan 'best possible' for ensuring a sustainable future for Lloyd's

From Mr David Springbett.

Sir, On July 23 you reported Peter Middleton, chief executive of Lloyd's, being critical of me ("Names face write to recover losses") for advising Names to vote against a resolution supporting the present management, and being sharply critical of improvements (involving Lysold plc) suggested for Lloyd's business plan.

The EGM resolution contains several topics, including that the new management of Lloyd's should be allowed the opportunity to implement the Business Plan. I, and my group, believe that the plan can be improved and, as we are unhappy for it to be implemented on the present basis, we have suggested a vote against the resolution. It is unfair of Peter Middleton to interpret this as a vote against the present management, as Lysold wishes to collaborate with him and his team.

The statement that the Lysold solution is "commercially naive" is amazing. Surely corporate capital investors must be regarded as "commercially naive" if they were to prefer the exposure in the Lloyd's plan to the security of the end of 1993. Corporate investors must contribute 1.5 per cent to the central guarantee fund, and be exposed to possible additional liabilities. Lysold proposes a further 1 per cent annual charge with no exposure to the past or to any further levies, including Lioncover (Cameron Webb), a liability that Lloyd's has not yet mentioned.

Lysold considers it impossible to run a successful Lloyd's with half the membership involved in disputes. Lysold's proposed solutions involve the creation of an insurance company, owned by Nantoss and incorporating all its reserves, operated under Department of Trade and Industry rules and not under the absolute control of Lloyd's; a solution that the council cannot suggest but

which can be proposed by the Names. These solutions include parameters for settling the litigation, closing open years, and providing a fair and affordable exit route for any Name at the end of two years.

It is really sad that, after months of work and consultations with leading City institutions, Peter Middleton should denigrate Lysold as naive and unacceptable. Lysold is a constructive and workable solution to the massive problems at Lloyd's.

Hopefully, Peter Middleton will yet see Lysold as the best possible evolution of the Lloyd's business plan, and the implementation of Lysold will result in a positive and sustainable future for Lloyd's.

Support for Lysold is growing and, unlike the Lloyd's business plan, the Lysold suggestions are "consultative".

David Springbett, The Abbey House, Hunterscombe Lane, Toplow, Berkshire SL6 8PQ

## County of Cleveland enjoys favourable profile among electors

From Mr Bruce Stevenson.

Sir, May I take issue with one point in John Authers' otherwise accurate summary of the current difficulties in local government re-organisation ("Council reformer meets resistance", 25 July).

The County of Cleveland is not unpopular with its electors. The Mori opinion poll commissioned by the Local Government Commission established that Cleveland has one of the highest levels of county identity in all of the nine areas so far reviewed.

County identity in Cleveland is comparable, for example, with North Yorkshire and a little higher than other tradi-

tional counties such as Lincolnshire, Gloucestershire and Derbyshire. Incidentally, it is twice as high as county identity in Avon, created at the same time as Cleveland in 1974.

In another equally independent study, the University of Birmingham examined satisfaction with county council services. Although precise comparisons were impossible, given differences in purpose, timing and wording of different surveys, it did become clear that satisfaction with county services in Cleveland is among the highest recorded in England.

May I make it clear that we

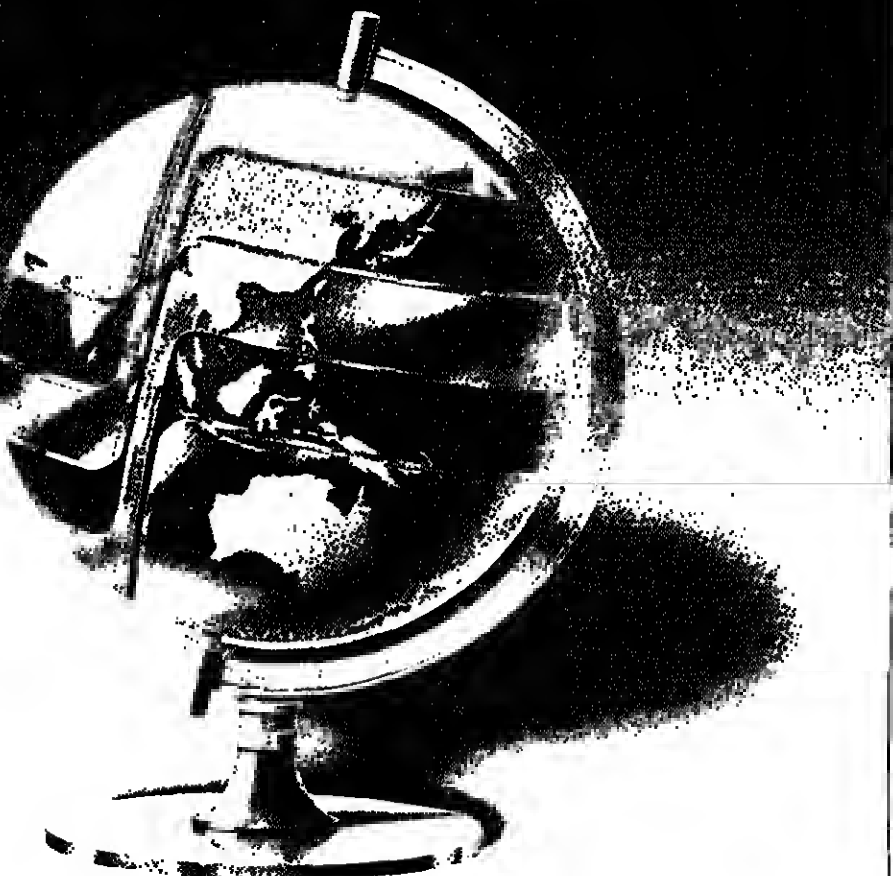
are nevertheless not arguing for the survival of the county council despite much misinformed comment to that effect. We wish to put right the mistakes of 1974. That is why we are supporting the creation of a new local authority to reflect the identity of Teesside, which was lost in 1974, and a second authority based on the present borough of Hartlepool, which also lost its general powers as a result of the 1974 re-organisation. It is interesting that, in the same Local Government Commission survey, levels of identity with Teesside were in fact even greater than those of the county council.

This is a proposition which

strikes the right balance between cost and community identity. The proposition now has support from every large business organisation in the area, including the Confederation of British Industry, as well as hundreds of individual companies. It is supported by many community organisations including parish councils, senior health professions, organisations representing people with disabilities and thousands of individual Teessiders.

Bruce Stevenson, chief executive and treasurer, Cleveland County Council, Municipal Buildings, Middlesbrough, Cleveland TS1 2QH.

## ASIA IS OUR WORLD



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# Opportunities after the storm

YESTERDAY'S agreement by EC finance ministers to recast the exchange rate mechanism was one of the more dramatic and desperate tactical retreats in the community's history. In delivering such a painful blow to French political amour propre, it may yet unleash deadly recriminations.

Certainly it would have been better if the community had faced up earlier to the fact that an indestructible ERM was likely to shatter on the rock of the Bundesbank's legitimate determination to preserve its reputation for controlling inflation during the testing post-unification period. It would have been more logical and should have been possible for the community to agree to reorientate the ERM, rather than waiting for the markets to blow it out of the water. Had Germany been willing to depart temporarily from the system, its remaining members would have been free to bring down their own interest rates in a co-ordinated fashion and the weekend's embarrassments might have been avoided.

But the most important point about the Brussels decision to move to broader fluctuation bands is that it is a lot better than the available alternatives: persisting with a policy which has driven Europe into a recession of quite unnecessary depth, or abandoning the system entirely.

Indeed, the progressive reshaping of the ERM in the last year can be seen alongside the grudging public support for the Maastricht treaty as delivering an unforgettable message: that the community must not allow its dreams to run too far ahead of economic and political realities. If it does, then its core achievement of having constructed from the chaos of post-war Europe an effective single market and a host of more ambitious joint political projects will be placed in jeopardy. These are the stakes as the community adjusts to its new realities.

The good news is that monetary conditions can now be eased in Europe, even though it appears likely that significant interest rate cuts in Germany may still be some months away.

## Unemployment rising

Mr Edouard Balladur, the French prime minister, has stated his determination to use his new freedom cautiously, but he will surely recognise the case for using it. With unemployment at 11.6 per cent and rising, and his colleagues on the French right positioning themselves for a presidential election race, he should take an early opportunity to lop a couple of points off interest rates, although

## A fresh start in schools

IT IS TOO soon to say with certainty that Sir Ron Dearing's report on the national curriculum and its assessment will bring an end to the confusion over testing in English schools. But the report contains many of the ingredients needed to address the justified concerns of the critics of the current arrangements. It also appears to hold fast to the basic and necessary principles of the government's education reforms.

The national curriculum, compulsory testing and the publication of school league tables are central to raising the standard of British education. The curriculum provides a set of educational targets which parents have a right to expect teachers to work towards. Testing at 7, 11, 14 and 16 measures achievement in meeting those targets. The publication of test results in league tables allows parents to compare school performance and provides a spur to schools that are failing to deliver.

The government's reforms ran into difficulty largely because of confusion over the purpose of testing. Simple tests were needed to assess individual pupil achievement so that school performance could be compared nationwide. Their creators tried to devise tests that could also diagnose individual pupils' needs, so increasing their complexity. The result was a complicated curriculum to sustain them. Teachers concerned about the use of test results in league tables were able to unite more moderate colleagues, parents, governors and even some of the government's advisers against the unwieldy and over-prescriptive structure.

## Level of achievement

Sir Ron has gone to the heart of the problem with his proposal to focus tests on establishing the level of achievement of pupils throughout the country. Other purposes of testing, such as the diagnosis of individual pupils'

he will seek to achieve this with as little damage to the franc as possible. Given the fundamentals of the French economy, this ought to be achievable. As rates fall across most of Europe, economic prospects will brighten, although a full return of confidence will not be possible without the return of fiscal discipline and economic momentum in Germany.

The more debatable question is how the EC should proceed from here. Finance ministers have set a target of January 1994 to return to narrow bands, at which point the Maastricht treaty says the second stage of Economic and Monetary Union should start.

## Realistic objective

It is too early to judge whether this is a realistic objective. Rather than spending too much time considering the Maastricht timetable for EMU, member states should set about making a bigger success of their managed system of floating exchange rates than they have. In recent times, of running the ERM.

Prior to the formal creation in January of the European Monetary Institute, a committee of EC central bankers, this will not be a simple task. With the Maastricht criteria for economic convergence a less rigidly fixed lodestar than hitherto, member states now face squarely their own responsibilities, desirable in their own right, to pursue credible, low-inflation economic strategies.

If this easing of European monetary policy can be accomplished without an outbreak of ill-tempered beggar-my-neighbour devaluations, it may indeed be possible for the community to consider an early return to narrow bands. But whether or not this target is met, the community cannot avoid the search for effective mechanisms for monetary co-ordination. Rather than placing all its bets on simply being able to restore narrow bands next year, it should consider more far-reaching ERM reforms. Those who yesterday pronounced Maastricht and the EMU process impossible ignore the fact that the single market remains incomplete, and sufficiently fragile for it not to be able to withstand sustained volatility in exchange rates between member countries.

In Britain, the weekend's events have occasioned some misplaced *schadenfreude*. More appropriate would be a sense of regret that Mr John Major is so politically damaged that he cannot even consider reopening a more relaxed ERM, so resounding his position at the centre of the difficult negotiations still to come about the community's monetary arrangements.

needs, should be left to teachers. He also sensibly recommends that the compulsory tests should concentrate on basic skills: English, mathematics and science. These changes would create shorter and sharper tests, making it harder for teachers to protest over the workload involved.

They also allow the national curriculum to be slimmed down to occupy less than 90 per cent of the timetable in primary schools, and to three-quarters in secondary schools. Even at these levels, the curriculum will still dominate the day-to-day business of the classroom, perhaps excessively so. However, Sir Ron's report restores flexibility to teachers and allows freedom to tailor the timetable to pupils' individual needs.

## Price of peace

The government has wisely accepted Sir Ron's proposals without qualification. The decision raises questions over the future of Mr John Patten, the Education Secretary. Currently suffering from a viral infection, he stood fast against such concessions only a few months ago.

Because of that intransigence, the price of buying peace has risen. In accepting Sir Ron's recommendations, the government had to go one step further by abandoning league tables for the tests at 7 and 14. There is justification for this step. What matters to parents in choosing a primary school is the achievement of children leaving it at 11 to go on to secondary education. At secondary level, it is performance at the minimum school-leaving age of 16 that is important.

There is a danger, however, that this will be seen as a retreat on the principle of publishing league tables. The proposals announced yesterday offer the basis for a fresh start in school education. But they should not mark an end to the process of change which is so badly needed to raise standards in Britain's schools.

In Brussels yesterday, senior European Community officials appeared in shock as they woke up to a world of floating European exchange rates. The explosion within the European exchange rate mechanism ends 15 years of relative currency stability and will play havoc with farm support prices, the Common Agricultural Policy and the EC budget.

"We have not experienced anything like this," said Mr Henning Christophersen, EC economics commissioner. "We may have to adjust farm prices every third day."

Sir Roy Denman, former EC ambassador in Washington, was one of the few looking beyond immediate setbacks and remaining sanguine. He argued that the case for exchange rate stability and monetary co-operation leading to a single currency is as strong as ever. Paraphrasing General Charles De Gaulle's message on June 18 1940, Sir Roy said: "Europe has lost a battle, but it has not lost the war."

As the dust settled, the list of political casualties grew. Mr Jacques Delors, president of the European Commission, who pleaded in vain on Sunday night for the D-Mark to leave the ERM, looks mortally wounded. For it was Mr Delors who seized upon the ERM as the vehicle for forcing European economies to "converge" in order to reach European Monetary Union (EMU) within a fixed timetable.

Mr Delors' world of grand designs and logical structures was suited perfectly to the expanding European economies of the 1980s, which paved the foundation for the single European market; but the pillars of the old order came tumbling down through the external shocks of German unification and a deeper-than-expected recession.

Now the Community must discover whether it has the strength and political resilience to recover its internal equilibrium, or whether more turmoil is in the offing. As one senior EC official put it: "The question is not whether we can move forward, but whether we avoid going backwards."

Commission officials are already starting to lay the groundwork for a rearguard action. The strategy will be discussed at a meeting of the full Commission on Friday, at which Mr Delors, still suffering from sciatica, will be present.

The first priority will be to stress that the ERM is not dead but remains "in suspended animation". All the EC finance ministers, including Mr Kenneth Clarke, UK chancellor, came down against suspending the entire ERM system when they met in Brussels on Sunday. There was a common understanding of the importance of trying to maintain currency stability.

Thus the old EMS structures remain intact; the same rules on intervention apply, albeit within much wider fluctuation margins; and there is at least the technical possibility that the one-time hard core of stronger currencies, includ-

The crisis in the European Monetary System raises new doubts whether the central core of the Maastricht treaty, the programme for economic and monetary union, can be implemented as prescribed. These doubts are partly technical, but only partly. The more serious question is whether Europe is emotionally ready for the idea.

At a technical level, European Community finance ministers have been able to rescue the Exchange Rate Mechanism after a fashion. The widening of the bands may be sufficient to accommodate both the Bundesbank's commitment to a tight monetary policy and the rest of Europe's need for monetary relaxation. But this salvage operation leaves unresolved the problem of how, or indeed whether, the EC is to take the next steps towards monetary union.

The more serious doubts are political. The monetary crisis has stirred up powerful populist emotions in member states - often nationalist and even xenophobic - so that it is quite difficult to imag-

## Major rethink

As their continental brethren survey the shards of the EMS, British politicians have been exceeding even their usual propensity to rewrite history with the latest round of "I told you so's".

Euro-enthusiast Kenneth Clarke indulged in it on the way to Brussels on Sunday, while John Major recalled his warning last autumn of the "fault-lines" which had led to sterling's election. Anyone would have thought the lot of them had stage-managed Black Wednesday down to the last second - instead of spending oodles of taxpayers' money trying hopelessly to man the defences.

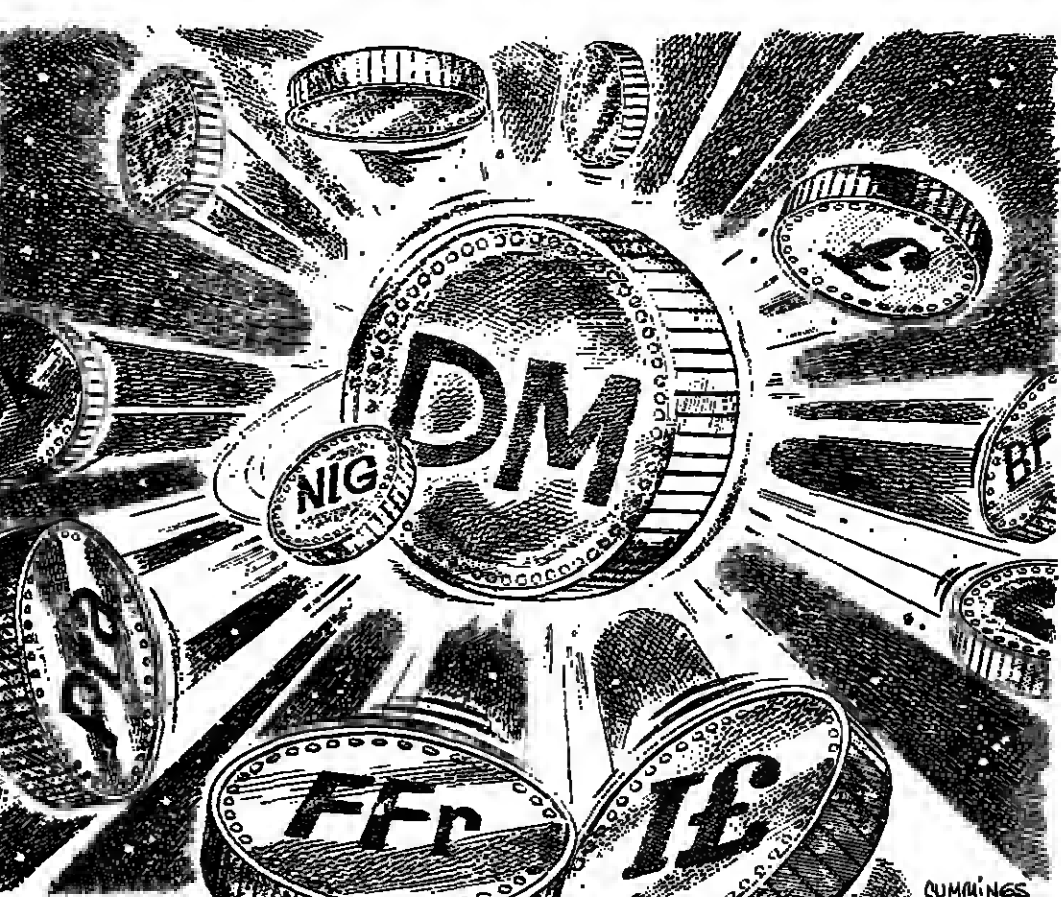
Lady Thatcher, by contrast, has something of a genuine claim to gloat. Observer recalls an animated conversation with the Iron Lady more than three years ago when she detailed how German reunification would rip the system apart. But she will be disinclined to trumpet her prescience; it was, after all, she who failed to tell her then chancellor, Major, out of the idea, hence landing Britain in there in the first place.

## Collector's item

Memo to Roger Regan, new chairman of Spring Ram, the bathrooms and kitchens group,

Can the European Community survive the pressures imposed by the ERM debacle, asks Lionel Barber

# The school of hard knocks



ing the German, French and Benelux, can be put back together again.

Meanwhile, the Commission will continue to press the case for economic convergence according to the timetable laid down in the Maastricht treaty, stricter budget discipline, and the preparation for the second stage of EMU, due to begin on January 1 1994. This involves tighter EC surveillance of European economies and the (largely symbolic) opening of the European Monetary Institute, the forerunner of the putative European Central Bank - assuming EC leaders can agree on a location and a president.

The second priority will be the single market. Largely ignored in recent months because of monetary turmoil, the 1992 project to allow the freedom of movement of goods, services, people and capital continues to gain in credibility.

Last week the Commission unveiled plans for harmonising the protection of design and intellectual property rights; this week, the risk

is that *de facto* floating exchange rates could tempt member states into competitive devaluations which could undermine the single market.

The third priority is enlargement negotiations with Austria, Finland, Norway and Sweden. Community membership for the sceptical Nordics was always going to be a hard sell; the dent in the EC's image means it will be even harder.

The fourth priority will be Mr Delors' own white paper on competitiveness - the wide-ranging study on why Europe is failing to create jobs at the rate of the US and Asia, and what it can do to restore steady economic growth.

Mr Wim Kok, Dutch finance minister, said early yesterday that the Delors paper could serve as the basis for a much more profound reflection on the common push for EMU. In Mr Kok's view, the crisis in the ERM had exposed fault-lines within the Community. The deflationary pressures inherent in Maa-

stricht's convergence criteria had pushed up unemployment in member states, raising threats to social stability. Some member states were clearly unwilling to pay the price of staying the course - a blunt reference to France.

It is now clear that it will be virtually impossible for most EC member states to meet the convergence targets on government debt, inflation and budget deficits by 1997, the date for monetary union. Mr Christophersen conceded as much yesterday when he agreed that the earliest date for EMU could only occur if a majority of currencies were in narrow ERM fluctuation bands by the end of 1994 - a prospect that seems remote.

Some in the Commission would like to see a loosening of the convergence criteria to make EMU more credible. But such a development looks unlikely in the face of Germany's insistence that domestic economic interests take precedence over European considerations, and

# The fault, dear Gaul...

Ian Davidson on a revival in cross-Channel prejudice

the conditions in which voters would acquiesce in surrendering control over their national currencies.

These reactions have been particularly acute in France. In itself, this is not surprising: on one hand, the franc has been the prime target of market pressure; on the other, the franc fort has been invested with all the symbolism of national virility in being made the central plank of economic policy by all governments, on the left and the right, for the past 10 years.

If the intensity of popular interest is measured in column inches, the French carry off the prize. Last Saturday Le Monde gave the lead story and four inside pages to the monetary crisis. Yesterday Figaro gave it the lead story and nine inside pages. By contrast, yesterday's Financial Times gave it only

the lead story and two inside pages. What is most surprising about some French comment has been its atavistic character, notably from some people who should know better. The former socialist foreign minister, Roland Dumas, described Sunday's settlement as a victory for *les anglo-saxons* who had opposed European integration from the outset. Even Raymond Barre, a former conservative prime minister and internationally known economist, has intimated that the speculation against the franc was indirectly orchestrated by British or American authorities.

Even Le Monde has sought to perpetuate the notion of a deep gulf between France and the Anglo-Saxons. According to its editorial on Saturday, the European currency crisis was a confrontation between two cultures: the continen-

tals, committed to dirigism, and the Anglo-Saxons, visually attached to liberalism and free trade; and within this antithesis, there is the opposition between the French commitment to fixed exchange rates and the Anglo-Saxon belief in floating exchange rates.

This contradiction is all the more poignant, in the picture painted by Le Monde, because France is isolated. It has long preached the cause of managed exchange rates, but it has great difficulty in recruiting allies for its point of view because the Germans are so ambivalent.

It is a touching picture, but strangely anachronistic and unreal. French traditions, no doubt, used to be enthusiastically dirigiste, but that was some time ago. The revolutionary fact about the past 10

## OBSERVER



'Norman has a theory that the dinosaurs became extinct when they tried to create an exchange rate mechanism'

professor of European management at the Open University and president of the Institute of Linguists, promises to give the new venture his best shot. Having spent his whole career trying to get the European message across, he says that there is nothing wrong with the concept, it's simply been put over badly.

## Plumber on board

The City's blue-chip merchant banks often like to lend their directors to the boards of companies

performing below par. So perhaps the arrival of Jeremy Lancaster, chairman of Wolsley, as a non-executive director of Kleinwort Benson, proves that it can be a two-way process.

Kleinwort, currently searching for a chief executive, has seen better days whereas Lancaster is one of Britain's more successful industrialists. Given that he is also the son of Wolsley's founder, he knows what it's like to be brought up in a family firm which needed to change its ways. His success during his 17 years at the Wolsley helm has been based on great attention to detail and a restlessness which has kept his management on their toes. However, getting this simple message across to the other 22 directors around the Kleinwort boardroom table could prove a challenge. Hope he didn't take the job just because he was flattered by Kleinwort's interest in him.

## In full sale

If the leaders of former Soviet countries are seeking entrepreneurial pace-setters, they need look no farther than their trainee sailors competing in the tall ships race.

When the 130 vessels arrived at the end of the first leg in Bergen, their crews mostly turned in for a rest. But not so those of the Russian and Polish ships. Not only on the decks but all

that the price of giving up the D-Mark for a single currency must be price stability.

These twin imperatives were displayed by the Bundesbank's token interest rate cut on Thursday. This left the French franc at the mercy of the financial markets. The climax came on Sunday when the Germans would not let the French bully them into a *de facto* revaluation of the D-Mark or a public commitment to reduce short-term interest rates.

Mr Theo Waigel, German finance minister, spelled out on several occasions in his early morning press conference yesterday that the Bundesbank had gone out of its way to support weaker member currencies. "We have more than fulfilled our (ERM) obligations."

Such strong words betray a certain resentment over French tactics; but one European monetary official countered that the French and Germans had at least opened the crisis talks on Sunday with a joint proposal for the D-Mark to leave the system - only to have the deal founder on the opposition of the Dutch, followed by Belgium, Luxembourg and Denmark.

Thus, Germany is ready to compromise, but continues to be the dominant force within the Community. In the past 12 months, events such as the initial Danish rejection of Maastricht have raised questions about whether the treaty is the correct approach for accommodating Germany, or whether looser arrangements are required - for example, accelerating membership of former communist countries.

Commission officials argue that inviting Poland, the Czech Republic and Hungary, or even Slovenia, into the EC would destabilise the Community and could wreck uncompetitive eastern economies. But some German officials and other diplomats acknowledge that early membership could help to balance the political cohesion of the former eastern bloc countries.

An equally profound question-mark hangs over the resilience of the EC itself, and whether it is simply "a fair-weather community", an institution which can function efficiently only in good economic times but which remains acutely vulnerable to external shocks - such as the war in former Yugoslavia.

This is the third time, after all, that the dream of European monetary union set out in the Werner report in 1970 has foundered. First came the 1973 oil-shock; then the second oil-shock in 1979. Now, European unification appears to have blown the project off-course.

Mr Christophersen is optimistic. Putting on a brave face yesterday, he rejected the UK government's assertions that there were "fault-lines" in the ERM. "I don't think the system was flawed, but the system was more fragile than we thought." He could well have been talking about the Community.

years has been France's comprehensive conversion to market forces: privatisation, deregulation and, above all, to the removal of exchange control. Nobody would deny the France's long-standing commitment to fixed exchange rates. But to equate it with a dirigism that has long been abandoned is simply absurd. It shows that, in moments of high stress, ancient reflexes reassert themselves, even when real conditions have changed.

By the same token, the picture of the *anglo-saxons* as unanimously wedded to floating exchange rates is baffling. Has Le Monde forgotten that John Major was totally committed to British membership of the ERM until Black Wednesday, less than a year ago?

The real fault-line is not between the French, united on dirigism, and the British, united on free trade. It runs through both countries, between the pro-Europeans and the nationalists; Norman Lamont and Philippe Séguin, Norman Tebbit and Jean-Pierre Chevènement are all on the same side.

## Adding up

If a pair of dinosaurs had purchased a 100-million-year life annuity paying out \$418.66 each month, how much cash would their heirs have received to date?

The answer is half a trillion dollars (\$500bn), which is also the value of the assets Merrill Lynch now holds in custody on behalf of its clients worldwide. Celebrating this target achieved earlier in the year, the American broker has been holding an internal competition to see who could make sense of such a big number.

So far, Observer's favourite calculation is the one that concludes that half a trillion is the sum the American Indians would today find in their cash management account had they invested the \$24 received for the sale of Manhattan at a rate of 6.69 per cent per annum.

## Bi-word

When is the ERM not an ERM? When it's an ERM-apocalypse.

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## INTERNATIONAL COMPANIES AND FINANCE

## IBM and Dell try new approaches to US marketing

By Louise Kehoe  
in San Francisco

INTERNATIONAL Business Machines and Dell Computer of the US yesterday introduced products and marketing approaches designed to address the increasingly segmented personal computer market.

In the US, IBM formed Ambra, a personal computers sales subsidiary, to target "price-sensitive PC customers who prefer purchasing through the direct channel".

Ambra will sell its own brand of PCs, built by subcontractors, through mail and telephone orders.

The formation of Ambra US follows similar moves last year by IBM in Europe and Canada.

It will offer a broad range of desktop and notebook PCs, aimed at the US market and substantially different from Ambra-branded products in Europe and Canada, the company said. Marketing and service functions will also be subcontracted to other companies.

Through Ambra, IBM is also attempting to broaden the scope of its PC marketing to cover market that its own

brand products do not address. The new company aims to capture a significant portion of the \$10bn direct-response market in the US, which at the moment is entered for by Dell, Gateway 2000 and Zeus.

Dell announced a series of desktop PC systems, services and support programs aimed at specific types of PC buyers.

"The old categories that computer companies have used - home versus business, large versus small, low-priced versus high-performance - no longer suffice," said Mr Michael Dell, chairman and chief executive.

Wang Laboratories, the US computer group, said it could emerge from Chapter 11 bankruptcy protection as early as autumn this year, Reuter reports. The company said it had reached agreement in principle on the private placement of \$60m in 12 per cent exchangeable preferred stock and warrants to purchase 3.6m shares of the new common stock that Wang will issue as part of its reorganisation plan.

Hewlett Packard has cut prices of its Deskjet brand ink-jet PC printers by between 9 per cent and 23 per cent.

## Star chief expected to resign

By Raymond Snoddy

MR Julian Mounter, chief executive of Star TV, the Asian satellite venture, is expected to announce his resignation tomorrow.

The move comes a week after Mr Rupert Murdoch's News Corporation bought a majority stake in the company, which broadcasts five channels of television to 38 countries. The cash and shares deal was worth around \$525m.

His resignation will come as a surprise after appearing last week to be looking forward to working with the new owners of Star TV. A meeting with Mr Murdoch was expected in Los Angeles this week.

News Corporation said it would be interested in maintaining some relationship with Mr Mounter, whose experience ranges from working for The Times newspaper and Thames Television in the UK.

He was also director-general of the New Zealand Broadcasting Corporation. He then took a year off to sail the world before becoming chief executive of Star last September.

He was involved in the negotiations which pitted Pearson, owners of the Financial Times, against News Corp for a majority stake in Star.

## Murdoch bets on channels' star potential

The media investor's latest prize puts 3bn viewers within reach, writes Simon Davies

IT is undoubtedly a glittering prize. Mr Rupert Murdoch can potentially distribute his vast programming resources to half the world's population, and many of its fastest-growing economies, following his acquisition of Asian satellite broadcaster Star Television.

Less clear, however, is whether the myriad of Asian government regulations will allow this giant consumer market to tune in, and whether the 3m people in the satellite's giant footprint will actually want to watch, in the face of growing competition from other broadcasters.

Mr Murdoch is faced with the governments of countries - China, Singapore, Malaysia and Indonesia - with a tradition of being suspicious of western media, and with an intimidating spectrum of languages and tastes to satisfy.

In fact, as he relaxes on his yacht, basking in the satisfaction of his victory in a four-man bidding war for the company, Mr Murdoch is faced with few certainties from this achievement.

He has unarguably proved a benefactor to Hong Kong investors, who had looked upon Star as a financial liability for owner Hutchison Whampoa.

They have been delighted with a pay-back of six times the cost of their investment, representing an extraordinary profit of HK\$1.5bn (\$194m).

However, News Corporation's shareholders may have to wait a lot longer. It is estimated that Star may have accumulated losses of up to US\$200m by the end of 1995.

Wishing upon this Star, however, could make shareholders' dreams come true. News Corp already owns a vast library of programmes to add to Star's existing five channels: Prime Sports, MTV Asia, BBC World Service Television; a Mandarin channel and Star Plus, a family entertainment channel.

It also has the technical expertise to introduce digital compression and encryption to Star, enabling it to spawn 50 or more channels, avoiding piracy and eking greater yields from its Twentieth Century Fox and Fox Television libraries.

In the short term, it is Star's existing markets of India and Taiwan which will sustain earnings. Taiwan is busy regulating a network of an estimated 400 illegal cable operators, which are bringing in fees of around \$100m (US\$378m).

In India, Star has been nothing short of a media phenomenon, with presenters from its MTV channel receiving rock

star receptions, and at least 3.3m households receiving its programmes.

Mr Kirk Sweeney, research director at Lehman Brothers, argued: "China may put a twinkle in his eye, but I don't think Rupert Murdoch is paying US\$25m for China today, or China tomorrow. He is paying for global distribution for his product."

However, the hidden value in the Star equation is definitely China. Mr Murdoch has made no secret of his ambition to break into this market of 1.2bn consumers, with their decades of accumulated savings.

Although direct satellite link-up is illegal for individuals, an estimated 500,000 dishes were sold in China last year, and there is no evidence of moves to enforce the law. As technology advances, and dishes get smaller, it is going to become increasingly difficult for governments to block Star's reach.

Mr John Ure, research associate at the Centre for Asian Studies, said: "I think China will try to follow the Singapore model of developing its own cable network, thereby enabling it to control what goes on the screens."

There are already more than 1,000 licensed cable television

networks operating in China. Wharf Cable - the cable operating subsidiary of the former Sir Yue-Kong Pao's Wharf group - recently became the first foreign company to gain a licence to operate a Chinese cable network, in the city of Chengdu.

According to Star's latest internal forecast, it expects to reach 14m Chinese households by the end of this year, and 21m by the end of 1994. This compares with the current figure of 4.8m.

However, the Chinese audience is going to want to watch Chinese programmes, and this is News Corp's new weak link. News Corp was blocked by Hong Kong regulators from purchasing 22 per cent of TVB, the Hong Kong terrestrial broadcaster which controls an estimated 60 per cent of all Chinese language programmes outside China.

TVB has just announced the formation of a consortium including CNN International, ESPN Asia, Home Box Office Asia and government-owned Australian broadcaster ATVI, which is to lease 16 transponders on the APT satellite, due for launch in June 1994. TVB sees Taiwan and, eventually, China as the vital markets. Further competition is inevitable.

Mr Fung Shong-kwong, general manager of TVB International, said: "I don't need computer models to project how we will do because we have been selling our programming to China on video and to TV stations for 15 years, very profitably."

With a satellite transmission that will cover all of China and Taiwan, TVB can offer the same distribution, but more attractive programming.

Mr Fung said it was unlikely TVB would sign a programming deal with its erstwhile ally. Some analysts, however, believe News Corp could sell 12 per cent of its stake in Star, thereby retaining 51 per cent control and reeling TVB's library through the offer of equity participation.

As an alternative, or possible addition, Star is already negotiating to purchase the entire library of Hong Kong filmmaker Golden Harvest, which has around 350 titles.

More than just China is at stake. The overseas Chinese control the business wealth of Hong Kong, Singapore, Taiwan and the bulk of the southeast Asian economies. If Mr Murdoch can attract their hearts, he will definitely have a prize worth winning.

## Lion Nathan buys brewing assets of Australian group

By Terry Hall in Wellington

LION NATHAN, the New Zealand-based brewing and soft drinks group, is set to lift its share of the Australian beer market from 40 to 46 per cent after buying the brewery operations of South Australian Brewing Holdings.

If approved, the takeover will consolidate Lion Nathan's position as the biggest brewer in Australia and New Zealand. SA Brewing's main brands are Southwark, West End and Eagle. Lion Nathan yesterday said it was paying A\$225m (US\$152m) in cash for SA's

brewing division, including the modern Southwark Brewing and Kent Town Malting, plus 105 hotels in the state of South Australia.

In addition, it has agreed a long-term contract for SA Brewing to continue to supply aluminium cans for SA brewing products, and later this year for Pepsi-Cola bottlers in New Zealand.

On expiry of the existing contract, SA Brewing will have the right to supply Lion Nathan's other aluminium can requirements in Australia and New Zealand, provided it can match competitive pricing.

Lion Nathan recently raised funds to retire debt and to help finance the purchase of the brewing interests.

It said the purchase would underpin its hopes to increase its share of the South Australian market and the overall Australian beer industry.

Lion Nathan said it had not yet decided whether to retain the hotels, noting that it did not own many in Australia and was selling them in New Zealand.

The purchase of the assets would increase Lion Nathan's assets in Australia to over 75 per cent of its total assets.

## Westpac's Ord Minnett broking arm to be sold

WESTPAC Banking of Australia is to sell its Ord Minnett broking arm to Jardine Fleming Australia and Ord Minnett management, Reuter reports from Sydney.

No price was disclosed, but Westpac said Ord Minnett management and Jardine Fleming would each take a 50 per cent stake in Ord Minnett, and the deal would be closed by September 30.

Hong Kong-based Jardine Fleming is owned by Jardine Matheson Holdings and UK-based Robert Fleming, with 50 per cent each.

The buyers claim the company will benefit from the combination of Ord Minnett's strong domestic presence and Jardine Fleming's cross-border expertise and international network.

Mr Robert Joss, Westpac managing director, said the sale was in line with Westpac's strategy of disposing of non-core assets.

Mr Neville Miles, joint managing director of Ord Minnett Securities, said the group would focus on its underwriting business and derivative markets in Asia in the new joint venture. He said: "Ord Minnett had not yet finished an arrangement to offer management and staff a stake in the broking firm."

## Asahi Breweries rises to Y8.5bn

By Emika Terazono in Tokyo

ASAHI Breweries, a leading Japanese brewer, reported a rise in non-consolidated pre-tax profits at the halfway stage, despite a fall in sales.

The company posted a 7.4 per cent increase, to Y8.5bn (\$81m), in pre-tax profits for the first six months to June, due to its rationalisation efforts.

Sales fell 2.3 per cent to Y349bn. After-tax profits, however, plunged 23.3 per cent to

Y2.4bn due to a rise in corporate taxes.

In spite of the sharp fall in after-tax profits, Asahi said it would pay an unchanged half-year dividend of Y4 a share.

Asahi attributed the fall in sales to the separation of its foods division in July last year. In addition, bad weather and a decline in consumer spending depressed beer sales, which fell 0.7 per cent to Y252.2bn.

The bad weather also affected sales of non-alcoholic

beverages, which declined 3.8 per cent to Y46.3bn.

Revenue from its real estate division dropped 19.6 per cent to Y7.4bn due to the continuing slump in the property market.

Wine sales fell 1.6 per cent to Y1.2bn and drug sales 7.1 per cent to Y391m.

For the full year to December, Asahi expects a 3.5 per cent rise in non-consolidated pre-tax profits to Y14.5bn on a 1.9 per cent increase in sales to Y785bn.

## Amsterdam SE to delist shares in Daf

By Ronald van de Krol in Amsterdam

SHARES in Daf, the Dutch truckmaker which collapsed under the weight of its debts in early 1993, are to be delisted from the Amsterdam stock exchange on September 1, with official trading to end on August 31, the bourse said yesterday.

The move follows repeated assertions from the receivers that shareholders could not expect to receive anything for their shares, which are now

quoted at just Fl 0.45, compared with their flotation price of Fl 47 per share in mid-1989.

Daf was resurrected in slimmed-down form as Daf Trucks in March.

The company is held privately by shareholders who include the Dutch state, the Flemish regional government of Belgium, and a number of institutional shareholders.

The decision to halt trading means that the expiration date of October call and put

options on Amsterdam's European options exchange will also be brought forward to August 31.

However, Daf's 6% per cent bonds will continue to be traded on the bourse on an over-the-counter basis.

A group of bondholders has said it will undertake legal action to press for damages against the issue's lead manager, ABN Amro Bank, and the trustee. The bonds, with a nominal value of Fl 1,000, have recently been quoted at around Fl 25.

## US oil concern sells unit stake

OCCIDENTAL Petroleum, the US oil group, is to sell 20 per cent of Occidental Exploration of Argentina to Astra Company Argentina de Petroleo for about \$24m. Reuter reports from Los Angeles.

Occidental said Astra had also agreed to buy for \$10m an option, exercisable in July 1994, to acquire the remaining 80 per cent.

Occidental Exploration on Argentina owns Occidental's Argentine oil and gas operating interests. At the end of 1992, it had 35m barrels of proven reserves.

## Airport contract awarded

By Ariane Genillard in Bonn

ASEA Brown Boveri, the Swedish-Swiss energy and engineering group, and Deutsche Babcock, the German engineering company, have won a DM730m (\$429m) contract from the Greek government to supply equipment for the new Spata airport on the outskirts of Athens.

ABB's German-based Schaltanlage and Leitungsbaueinheit, which manufacture switch gears and energy wires, will provide electrical equipment worth DM410m for the airport's terminals and for the

runway lighting systems.

Krantz TKT, a subsidiary of Balcke-Dürr, owned by Deutsche Babcock, is expected to provide most of the remaining electrical equipment.

Infrastructure at the Spata airport will be built by Hochtief.

The whole project is estimated to be worth around DM6bn. The Greek government wants to create a Spata airport company to handle the development and the operations of the airport.

The airport, due for completion in 1998, will have a capacity of 18m passengers a year.

## Sales halted at telecoms joint venture

MOTOROLA of the US and Canada's Northern Telecom have halted sales of cellular telecommunications equipment from a joint venture formed by the companies last year, writes Louise Kehoe.

The venture had been expected to generate a revenue of between \$500m and \$1bn, but industry executives said it had been dogged by disagreements over cellular telephone technology standards.

Although the venture has not been terminated, its sales activities have been suspended and most employees will be employed by the parent companies.

## UOB improves

UNITED Overseas Bank of Singapore lifted gross pre-tax profits for the six months to June 30 to S\$377m (US\$191m), a 30 per cent rise on a year ago, writes Kieran Cook in Kuala Lumpur.

The bank also announced a one-for-eight bonus share issue.

All of these securities having been sold, this announcement appears as a matter of record only.

July 1993

8,280,000 Shares

PETS<sup>SMART</sup>

Common Stock

1,440,000 Shares

The above shares were offered outside the United States and Canada by the undersigned.

Donaldson, Lufkin & Jenrette  
Securities Corporation

Alex. Brown &amp; Sons International

Montgomery Securities

B. Metzler seel. Sohn &amp; Co.

Kummandlgesellschaft auf Aktien

Banque Indosuez

Caisse Des Depots Et Consignations

Credit Lyonnais Securities

Daiwa Europe Limited

Kleinwort Benson Limited

Paribas Capital Markets

N M Rothschild &amp; Sons Limited

Société Générale

Swiss Bank Corporation

S.G. Warburg Securities

6,840,000 Shares

The above shares were offered in the United States and Canada by the undersigned.

Donaldson, Lufkin & Jenrette  
Securities CorporationAlex. Brown & Sons  
Incorporated

Montgomery Securities

Bear, Stearns &amp; Co. Inc.

The First Boston Corporation

Dillon, Read &amp; Co. Inc.

A.G. Edwards &amp; Sons, Inc.

Goldman, Sachs &amp; Co.

Hambrecht &amp; Quist

Kidder, Peabody &amp; Co.

Lazard Frères &amp; Co.

Lehman Brothers

Merrill Lynch &amp; Co.

J.P. Morgan Securities Inc.

Oppenheimer &amp; Co., Inc.

PaineWebber Incorporated

Prudential Securities Incorporated

Salomon Brothers Inc

Smith Barney, Harris Upham &amp; Co.

Wertheim Schroder &amp; Co.

Dean Witter Reynolds Inc.

William Blair &amp; Company

Advest, Inc.

Allen &amp; Company

Arnhold and S. Bleichroeder, Inc.

Dain Bosworth

First Southwest Company

Furman Selz

Gruntal &amp; Co., Incorporated

Interstate/Johnson Lane

Janney Montgomery Scott Inc.

Johnston, Lemon &amp; Co.

Kemper Securities, Inc.

Ladenburg, Thalmann &amp; Co. Inc.

C.J. Lawrence Inc.

Legg Mason Wood Walker

Mabon Securities Corp.

McDonald &amp; Company

Needham &amp; Company, Inc.

Neuberger &amp; Berman

The Ohio Company

Piper Jaffray Inc.

Ragen MacKenzie

Raymond James &amp; Associates, Inc.

The Robinson-Humphrey Company, Inc.

The Seidler Companies

Stephens Inc.

Stifel, Nicolaus &amp; Company

Wessels, Arnold &amp; Henderson

Wheat First Butcher &amp; Singer

Black &amp; Company, Inc.

Brean Murray, Foster Securities Inc.

Gerard Klauer Mattison &amp; Co., Inc.

W.B. McKee Securities, Inc.

Parker/Hunter

Peacock, Hislop, Staley &amp; Given, Inc.

Pennsylvania Merchant Group Ltd

Plenge, Thomas &amp; Gunning Securities Inc.

Punk, Ziegel &amp; Knoell

## COMPANY NOTICES

First Chicago  
Leasing FSC, Inc.,

a U.S. Virgin Islands corporation is available to arrange leases of U.S. manufactured property to be used predominantly outside the U.S. If interested, please contact the company at:

First Chicago Leasing FSC, Inc.  
Citibank Building, Suite 200  
St. Thomas, U.S.V.I. 00801

## Luke FSC, Ltd.,

a Bermuda corporation is available to enter into leasing transactions, as lessor, with respect to U.S. manufactured property to be used outside the U.S. If interested, please contact the company at:

Luke FSC, Ltd.  
c/o CODAN Services, Ltd.  
Clarendon House  
Church Street  
Hamilton, Bermuda

Oak Street  
FSC, Ltd.,

a Bermuda corporation is available to enter into leasing transactions, as lessor, with respect to U.S. manufactured property to be used outside the U.S. If interested, please contact the company at:

Oak Street FSC, Ltd.  
c/o CODAN Services, Ltd.  
Clarendon House  
Church Street  
Hamilton, Bermuda







INTERNATIONAL CAPITAL MARKETS

Rome prepares global bond that could raise up to \$5bn

By Hagl Simonian in Milan and Tracy Corrigan in London

THE Republic of Italy is preparing to issue the world's largest global bond in a deal which could raise up to \$5bn

INTERNATIONAL BONDS

and virtually complete this year's foreign borrowing programme. The largest global dollar bonds issued so far are \$3bn issues for the UK and Ontario, according to IFR Securities Data, while the UK and Italy have both issued global offerings of DM5bn.

issues over a period of several years. Precise timing for the transaction has not been revealed. However, the Italian treasury will be embarking on a two-week roadshow to international investors in early September. "The bond could come straight after," said Mr Alberto Giovannini, an adviser to the treasury. The size of the issue will depend partly on the outlook for issuing in other currencies before year end, said Mr Giovannini. In January, the Italian authorities said they wanted to raise \$10bn to \$15bn on international markets this year. So far, they have borrowed about \$7.2bn through fixed rate deals in D-Marks, dollars and yen as well as a floating rate dollar bond.

ing debt, since the large Italian domestic market dwarfs Italy's foreign bond borrowings. "The government will not push the market for an extra \$1bn, because it's just a drop in the ocean for Italy," a dealer said. The global bond, which has been expected in international markets, will be led by Goldman Sachs and Salomon Brothers. Choosing a global deal, rather than a more traditional Eurobond offering, will allow the treasury to access the US debt market immediately, said Mr Giovannini. Italy has not previously tapped the US market. "This is probably the most important issue in the global bond market. Before it was just speculation. Now it's a fact," he said. Elsewhere, activity in the Eurobond market was subdued yesterday, as investors took stock of the effective collapse

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount	Coupon	Price	Maturity	Fee	Spread	Book runner
US DOLLARS							
MI Bank Int. (Cymru)	150	10	99.96R	Sep. 1997	8.2R		K.P. Jeejeebhoy / Lehman Bros.
D-MARKS							
National Bank of Hungary	1bn	8.75	101.5	Sep. 2003	2.5		Deutsche Bank
FRANCE							
Credit Local de France	500	5.75	99.41R	Aug. 1998	0.25R	+16 (91%-93)	Barclays Paribas
SWISS FRANC							
Norfolk Construction Co. Ltd.	45	1	100	Aug. 1997			Dahms Sec. (K.S.)

of the exchange rate mechanism over the weekend. Even without the recent turmoil in the currency markets, new issue volume would be subdued, as August is the low point for activity in the Eurobond market. In the D-mark sector, the National Bank of Hungary, which borrows on behalf of the Hungarian government, launched a DM1bn issue of 10-year bonds via Deutsche Bank. The deal was initially sold at a spread of 230 basis points over the 10-year Treasuries bond yield. The Treasury issue is considered the 10-year benchmark, prior to the launch of the new 10-year bond today. Other potential deals are a D-mark offering by the European Investment Bank and a \$500m 10-year Eurobond by the Inter American Development Bank.

Italy, UK paper best European markets in July

By Sara Webb

ITALY and the UK, two former members of the European exchange rate mechanism, were the top performing European government bond markets in July, according to figures compiled by JP Morgan Securities. Italian bonds showed a return of 2.77 per cent in local currency terms, followed by the gilt market with a return of 2.5 per cent - well above the average European bond return of 1.33 per cent.

many investors as the European exchange rate mechanism came under attack last month. Several of the European currencies - in particular the French franc, Belgian franc, peseta and Danish krone - suffered renewed bouts of turbulence at the end of July, triggered by the Bundesbank's decision to leave its keenerly watched account rate unchanged while cutting the Lombard (or effective ceiling) rate by 50 basis points. French government bonds gained only 0.75 per cent on the month, while the Belgian, Ecu and Danish bond markets were the worst performers with falls of 0.29 per cent, 0.44 per cent and 0.99 per cent respectively.

Ministers' decision to widen ERM bands provides lift

By Sara Webb

EUROPE's government bond markets roared ahead yesterday as the decision by European Community finance ministers at the weekend to widen the currency fluctuation bands of the European exchange rate mechanism was seen as paving the way for interest rate cuts across the continent.

Fazio, the central bank governor, that the EC currency accord had removed an obstacle to lower rates. Spanish government bonds shot higher and gained over a point on the day. Dealers said the market would be paying close attention to today's repo tender to see whether the Bank of Spain cuts its 11 per cent key money rate.

market's safe-haven status. Mr Schlesinger's remarks yesterday that the Bundesbank would allow call money rates to fall below the discount rate were seen as indicating that the repo rate will shift lower. Dealers reported good buying of medium-dated and 10-year funds as the Bundesbank's refusal to cave in and cut interest rates - even at a time of crisis in the European exchange rate mechanism - served to lift confidence in the central bank's long-term commitment to deflating inflation.

US Treasury prices were mixed across the maturity range yesterday morning as the bond market kept a close eye on passage of President Bill Clinton's budget package. By midday, the benchmark 30-year government bond was up 1/4 at 107 1/2, yielding 6.559 per cent. At the short end of the market, the two-year note was down 1/4 at 100 1/4, to yield 4.184 per cent.

The morning's economic news - a slight increase in the National Association of Purchasing Managers's July index of economic activity, was in line with expectations, and had little impact on market sentiment. Attention was otherwise firmly fixed on Congress, where Mr Clinton was making last-minute efforts to ensure his budget was passed by lawmakers this week.

Treasury investors are keen to see the budget passed. This is primarily because they view it as the first serious attempt by a US government to tackle the large federal budget deficit. Any sign that Mr Clinton's budget might fail at the final hurdle, therefore, would probably rock bond prices.

JAPANESE government bonds surged ahead as the strength of the yen against the dollar and other currencies continued to fuel hopes of a cut in the official discount rate. The yen touched a new high on Friday of 104.25 to the dollar, and traded at around 104.75 to the dollar yesterday. The September futures contract, which opened at 110.93, reached a high of 111.42 before ending Tokyo trading at 111.30. In the cash market, the yield on the No 145 issue ended the day at 4.155 per cent, having traded in a range of 4.135 and 4.175 per cent.

GOVERNMENT BONDS

slashed as governments attempt to inject new life into the recession-hit economies of Europe, although yesterday saw no sudden moves to ease. "I expect the central banks will wait for some of the foreign exchange dust to settle before cutting rates," said Mr Kit Juckes, economist at S.G. Warburg Securities. Among the high-yielding bond markets, Italy showed very strong gains, with the Lifite futures contract jumping nearly two points during the day - from Friday's close of 106.13 to a high of 107.90 yesterday - on expectations of an easing. The market took heart from remarks by Mr Antonio

FRENCH government bond prices ended the day sharply higher even though the Banque de France left its key interest rates alone, giving market participants the clear impression that the central bank will not rush to cut interest rates. "It's more likely that the central bank will wait for the markets to calm down and stabilise before it cuts interest rates," said one dealer. The French franc held up fairly well in the foreign exchange markets and saw bond prices rally, the yield on the 10-year OAT fell below the equivalent yield on German government debt.

GERMAN government bonds gained a quarter-point yesterday, underperforming other European bond markets but still benefiting from the

market's safe-haven status. Mr Schlesinger's remarks yesterday that the Bundesbank would allow call money rates to fall below the discount rate were seen as indicating that the repo rate will shift lower. Dealers reported good buying of medium-dated and 10-year funds as the Bundesbank's refusal to cave in and cut interest rates - even at a time of crisis in the European exchange rate mechanism - served to lift confidence in the central bank's long-term commitment to deflating inflation.

JAPANESE government bonds surged ahead as the strength of the yen against the dollar and other currencies continued to fuel hopes of a cut in the official discount rate. The yen touched a new high on Friday of 104.25 to the dollar, and traded at around 104.75 to the dollar yesterday. The September futures contract, which opened at 110.93, reached a high of 111.42 before ending Tokyo trading at 111.30. In the cash market, the yield on the No 145 issue ended the day at 4.155 per cent, having traded in a range of 4.135 and 4.175 per cent.

Indian investment fund attracts \$100m

By Sara Webb

THE Indian Opportunities Fund, an offshore open-ended fund, has raised \$100m from international investors who want to invest in the Indian stock market through a managed investment vehicle. The fund will be managed by Martin Currie, the Edinburgh-based fund management group, and Indbank, the Indian merchant bank.

International investor interest in the Indian market has been stimulated by the government's economic reform programme. The Bulgarian government has backed a proposal to swap state enterprise debts for government bonds and aims to give a final approval on August 15, officials said. The proposed bonds will have a 20-year maturity, five-year grace period and 10 per cent interest on the lever credit and six-month London interbank offered rate on the currency bonds, both payable twice a year.

FT/ISMA INTERNATIONAL BOND SERVICE

Country	Issue	Amount	Coupon	Price	Maturity	Fee	Spread	Book runner
US DOLLARS								
USA	100	10	99.96R	Sep. 1997	8.2R			K.P. Jeejeebhoy / Lehman Bros.
FRANCE								
Credit Local de France	500	5.75	99.41R	Aug. 1998	0.25R	+16 (91%-93)		Barclays Paribas
SWISS FRANC								
Norfolk Construction Co. Ltd.	45	1	100	Aug. 1997				Dahms Sec. (K.S.)

RISES AND FALLS YESTERDAY

Category	Value	Change
British Funds	44	25
Other Fixed Interest	11	1
Commercial & Industrial	468	126
Government & Property	404	43
Oil & Gas	24	23
Plantations	0	0
Others	56	26
Minerals	41	37

LONDON RECENT ISSUES

Issue	Amount	Coupon	Price	Maturity	Fee	Spread	Book runner
100	10	99.96R	Sep. 1997	8.2R			K.P. Jeejeebhoy / Lehman Bros.

LIFFE EQUITY OPTIONS

Option	Value	Change
British Funds	44	25
Other Fixed Interest	11	1

FT/ISMA INTERNATIONAL BOND SERVICE

Country	Issue	Amount	Coupon	Price	Maturity	Fee	Spread	Book runner
US DOLLARS								
USA	100	10	99.96R	Sep. 1997	8.2R			K.P. Jeejeebhoy / Lehman Bros.
FRANCE								
Credit Local de France	500	5.75	99.41R	Aug. 1998	0.25R	+16 (91%-93)		Barclays Paribas
SWISS FRANC								
Norfolk Construction Co. Ltd.	45	1	100	Aug. 1997				Dahms Sec. (K.S.)

RIGHTS OFFERS

Issue	Amount	Coupon	Price	Maturity	Fee	Spread	Book runner
100	10	99.96R	Sep. 1997	8.2R			K.P. Jeejeebhoy / Lehman Bros.

TRADITIONAL OPTIONS

Option	Value	Change
British Funds	44	25
Other Fixed Interest	11	1

FT-ACTUARIES FIXED INTEREST INDICES

Index	Value	Change
British Funds	44	25
Other Fixed Interest	11	1

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# BBA plans to focus on four core activities

By Roland Rudd

BBA, the engineering group, yesterday said it would focus on four core businesses as it reported half year profits to the end of June.

In response to its critics, who have attacked the group for lacking strategic consistency, Mr Vanni Treves, chairman, said the group would concentrate on building up its automotive, industrial, aviation and electrical businesses.

Mr Treves said: "We are not oblivious to what the institutions have been telling us. However, we decided to articulate the new strategy, which has been evolving for some time, without prompting from anyone."

Operating profits increased from £40.9m to £46.3m as the group benefited from further

cost cutting.

The automotive business, which bore the brunt of the redundancy and reorganisation costs, saw profits fall from £17.4m to £18m.

Industrial increased profits from £17.9m to £23.7m as its businesses continued to cut costs.

Aviation profits rose from £5.6m to £8.6m as programmes were reduced and delivery schedules delayed because of difficulties in the worldwide aviation market.

**COMMENT**

When a company seeks to reassure investors that it has no plans to ask for more cash for the foreseeable future it is a sure sign that things are not what they ought to be. Equity issues to fund a rapid succession of deals may have looked

attractive in the roaring 1980s, but not in the more sober 1990s. After six share issues in eight years, BBA's investors are understandably weary of cash calls. The share price peaked in 1986 at 274p; it yesterday fell to 166p. BBA is now talking about a new stage of consolidation which involves focusing on four core businesses. It is a message many of the group's investors have longed to hear, and happens to coincide with the departure of the managing director responsible for the empire-building. With forecast pre-tax profits of £65m, giving earnings per share of 7.5p, the shares are on a hefty prospective multiple of 22.1. Investors should hold on unless the company goes back to its bad old ways of issuing more shares.



Vanni Treves: the new strategy has been evolving for some time

## Midland & Scottish writes off oilfield

By Catherine Milton

MIDLAND & Scottish Resources has written off the entire value of its Emerald oilfield east of Shetland after "conversations" with its auditors.

It said the 1992 accounts, to be published shortly, had been prepared on a going concern basis assuming the group's lenders would continue their support for the Emerald Field project. The shares fell 3 1/2 p to 12p.

The USM-quoted oil company published results for 1992 which included a provision of £30m (£38.9m) against the Emerald Field development, warning that audited accounts would be delayed pending a full assessment of a drilling programme.

The provision has been increased to £27m, deepening 1992 pre-tax losses from £97.4m to £113.6m (£46.4m).

Production in the Emerald Field was originally delayed by a protracted dispute over equipment with Davy Corporation, settled in May 1992.

The company said the Emerald Field would continue to provide positive cash flow. The extent to which cash flow would service related debt depended on the total reserves recovered from drilling new wells.

MSR said: "Without such wells the projected production and the cash flows based on that production are not now expected to generate a material surplus beyond that required to meet obligations to non-banking creditors."

It added: "The full accounts explain that the group has received confirmations from relevant lenders of their present intention to continue support for the Emerald Field project which has allowed the directors to prepare the accounts on a going concern basis."

Directors expect any shortfall to be recovered from the floating production platform, being built in Italy with Italian government backing, to be delivered in 1994. The platform is now MSR's principal asset.

## Ashtead improves 22% to £2.76m

By Paul Taylor

ASSTEAD, the plant and machinery hire group, reported a 22 per cent increase in annual profits and said that current trading was "well up on the same period last year and margins are now strengthening."

Pre-tax profits increased to £2.76m in the year to April 30 against £2.27m last year when profits were reduced by a £65,000 exceptional charge.

Of the £488,000 increase, £385,000 came in the second half and Mr Peter Lewis, chairman, said the stronger second half performance had continued into the current year.

Turnover increased by 10 per cent to £33.9m (£30.8m) with all three divisions achieving increased sales and rental income now accounting for 89 per cent of the total.

Earnings per share rose 35 per cent to 9.7p (7.2p); an increased final dividend of 3.40p makes a total of 4.63p (4.12p).

Mr Lewis said: "The results reflect the strategy we have been pursuing since 1990. We have maintained investment, reshaped our customer base and entered new markets. As a consequence, and almost entirely through organic growth, we have increased our market share and strengthened the position of each of our businesses."

Total capital expenditure

increased to £10.5m (£7.8m), including £8.8m on plant, comfortably exceeding the depreciation charge of £7.93m (£7.46m). Reflecting the high level of capital expenditure net borrowings increased to £10.3m (£8.4m) at the end of April, equivalent to gearing of 50 per cent, up from 43 per cent a year earlier.

A-Plant, the core plant hire division, lifted turnover by some 7 per cent to £26.9m, further increased its market share, and reported trading profits of £9.75m (£9.39m).

**COMMENT**

Ashtead's strategy through the recession should stand it in good stead now the recovery appears to have arrived. The group has continued to invest heavily in new plant, has reduced its dependency on construction from 80 per cent of turnover in 1990 to less than 40 per cent today and has emphasised industrial plant hire, rather than sales. Although the hire market has shrunk, Ashtead has managed to boost market share and push up prices recently. Having climbed from a low of 90p last September the shares gained another 19p yesterday to close at 238p. With pre-tax profits of some £3.5m expected this year and earnings of 11.7p the shares are trading on a lofty prospective p/e of about 20, but are still worth buying on signs of weakness.

## Chrysalis closes MAM Leisure after losses

By Michael Skapinker, Leisure Industries Correspondent

CHRYSLIS, the music and media group, is to wind down MAM Leisure, its amusement machines subsidiary, and withdraw from the business.

Chrysalis expects MAM Leisure, which employs 400 people, to report a loss of £8m in the year to end-August, following a deficit of £1.8m last year.

Mr Chris Wright, chairman, said the business could not return to profitability without further rationalisation and considerable investment.

The business had been badly hit by recession, but had also been adversely affected by the fall in the number of people in the 18 to 25 age group.

The group said it expected to have withdrawn from the business by the end of 1993.

It said it was not yet clear whether all 400 employees would lose their jobs as there was still a possibility that small parts of the business might be sold to local operators.

Chrysalis had considered several options before deciding to close the business.

After failing to find a buyer for the subsidiary, the group considered withdrawing from several British regions and concentrating on the most densely populated parts of England. It decided, however, that this would not solve its problems.

See People

## Scheme for LUI subsidiaries

By Richard Lapper

PROVISIONAL liquidators of the insurance subsidiaries of London United Investments are expected to publish a scheme of arrangement before the end of this month.

LUI, the insurance to property conglomerate, collapsed early in 1990.

Its subsidiaries, Kingscroft Insurance, Wallbrook Insurance, El Paso Insurance, Lime Street Insurance and Mutual Reinsurance - collectively referred to as the KWELM companies - have outstanding

liabilities to policyholders amounting to some \$5bn (£3.3bn).

The business underwritten by the KWELM companies consisted mainly of general and product liability insurance for North American companies, together with professional indemnity insurance for accountants, architects, engineers and lawyers, and medical malpractice insurance for doctors and hospitals.

Most of the business was written through HS Weavers (Underwriting) Agencies between 1972 and 1990.

Mr Chris Hughes and Mr Ian Bond, both partners in Coopers & Lybrand, will seek creditors' approval for a scheme of arrangement rather than a straight liquidation.

They believe a scheme of arrangement offers the best prospects for the 100,000 plus actual or potential creditors of the companies.

The provisional liquidators have recovered or secured more than \$200m since their appointment.

They are attempting to recover further insurance assets from more than 600 reinsurers worldwide.

## £3m offer for loss-making Etonbrook

By Catherine Milton

MR ALEX Perloff, the erstwhile rebel shareholder of Etonbrook Properties who staged a boardroom coup and took the chair himself yesterday announced that companies in which he has interests had agreed a cash offer for Etonbrook.

The two investment companies, Panther and Multitrust, already own 1.26m shares -

some 32.9 per cent of the shares or 25.8 per cent of voting rights. They are offering 79p per share, a premium of 1.3 per cent over the 78p closing price on July 29, valuing the company at about £3.03m.

Etonbrook yesterday reported pre-tax losses of £1.23m in the year to March 31 compared with profits of £181,214. It showed net current assets of about £4.4m (£5.9m). Losses per share were 61.5p

compared with profits of 1.3p last time. There is no dividend. The new board has decided not to compensate the company's former directors and has made a provision towards costs that could arise from legal claims.

Directors intend to investigate the original acquisition of properties from Palmerston Investment Trust, in particular a property bought for £2.5m in 1989 now valued at £250,000.

## Whitcroft ex-directors share £165,000 pay-off

By Paul Taylor

WHITCROFT, the Cheshire-based mini-conglomerate which reported a £41.8m pre-tax loss in the year to March 31, paid a total of £165,000 in compensation for loss of office to two former directors.

The payments were made to Mr Peter Gould, former chairman, and Mr Graham McCardell, finance director, and were disclosed in the company's annual report. The total payment was not broken down between the two, and Mr McCardell retired from the board in early March after

reaching normal retirement age, while Mr Gould resigned later that month after 24 years with the company, the last two as executive chairman.

Mr Gould's resignation was seen as an attempt to appease the group's institutional investors, who had watched the share price tumble.

He was succeeded in a non-executive capacity by Mr David Kendall, chairman of Bunzl, Mr Mike Derbyshire - brought in by Mr Gould as managing director last year - became chief executive, and Mr McCardell was succeeded by Mr Martyn Ellis.

DIVIDENDS ANNOUNCED				
	Current payment	Date of payment	Company - pending dividend	Total for year
Abbey National	4.16p	Oct 11	3.8	11.5
Ashtead	3.40p	Oct 8	3.025	4.125
BBA	2.25p	Nov 13	2.25	7.5
Scott National	1.8p	Oct 7	2.1	8.85

Dividends shown pence per share net except where otherwise stated. 10p increased capital. SUCM stock. X100d interim makes 4.5p to date.

# 112

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COMPANY INFORMATION TO ACT ON

### KB IFIMA N.V.

KB Internationale Financieringsmaatschappij N.V.

USS 150,000,000

Guaranteed Floating Rate Notes due 2011

In accordance with the Description of the Notes, notice is hereby given that for the Interest Period from July 30, 1993 to October 29, 1993 the Notes will carry an Interest Rate of 5% per annum.

The Interest Amount payable on the relevant Interest Payment Date, October 29, 1993 against coupon No 30 will be USS 126.39 per USS 10,000 principal amount.

Of Note and USS 3,158.72 per USS 250,000 principal amount of Note.

The Agent Bank  
**Kreditbank Luxembourg**

### CONTRACTS & TENDERS

#### TPA BANKING SERVICES AND IS SUPPORT FOR PENSIONS ADMINISTRATION

The Teachers' Pensions Agency (TPA) is an Executive Agency of the Department for Education. Based in Darlington, it administers the superannuation scheme for teachers in England and Wales. The TPA intends to market test the functions currently carried out on its behalf by the 'Paymaster' based in Crawley, they are:

- The monthly payment of 300,000 pensions and other benefits; and
- IS Support for Pension Administration including the management and maintenance of its database of Teacher/Pensioners.

Following an advertisement in the Official Journal of the European Communities published on 23 July, any company that believes it has the necessary level of experience and competence in the areas of work identified above should make a written expression of interest before 20 August 1993. A detailed business questionnaire will be forwarded from the information received, together with extensive research and analysis, the TPA will prepare a select list.

Interested companies should write to:

Central Purchasing Unit  
Department for Education  
Mowden Hall  
Saindrop Road,  
Darlington, Co Durham DL3 9BG

No additional information should be forwarded at this time.

Completed questionnaires must be returned to the above address by 12.00 on 20 August 1993 marked for the attention of Neil Oxley.

### LEGAL NOTICES

In the High Court of Justice  
Chancery Division  
Mr Registrar Banks

No 604732 of 1993

IN THE MATTER OF EFC plc  
and  
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE is hereby given that the Order of the High Court of Justice Chancery Division dated 14th day of July 1993 confirming the revocation of the capital of the above-named Company from £625,116,000 to £1,120,000 and the reduction of the share premium account by £1,000,165.20 and the Minute approved by the Court showing with respect to the capital of the said Company, as altered the several particulars required by the above-mentioned Act were registered by the Registrar of Companies on the 15th day of July, 1993.

DATED the 28th day of July, 1993  
Slaughter and May (INCORPORATED IN ENGLAND)  
25 Abchurch Lane  
London EC4N 3DF  
Solicitors for the said Company

Notice is hereby given that a meeting of creditors of the above matter is to be held at The Shakspeare Tavern, 100 Strand, London, WC2R 0AL, on the 18th day of August 1993 at 3.30 pm to consider any proposals under S.226(1) of the Insolvency Act 1986 and to consider establishing a creditors' committee.

A proxy form should be completed and sent to me by the date of the meeting if you cannot attend the meeting and wish to be represented. You must give to me, not later than 12.00 hours on the business day before the day fixed for the meeting, details in writing of your proxy.

Yours faithfully,  
Ian M. Crampton  
Coopers & Lybrand  
43 Temple Row  
Birmingham B2 5ST



## COMPANY NEWS: UK

## Weir expands with £16m of acquisitions

By Andrew Baxter and Daniel Green

WEIR GROUP, the Glasgow-based engineering company, is paying about £16m for a package of UK, US and Australian businesses.

The companies being acquired are owned by Darchem, the wholly owned subsidiary of William Baird, one of Britain's biggest clothing manufacturers.

The deal is Weir's second biggest acquisition to date after the £30m it paid in 1990 for Strachan & Hooslow, the mechanical engineering specialist. It continues the group's strategy of focusing on specialist

engineering products and services worldwide. For William Baird, also based in Glasgow, the sale is its second in eight months of non-core businesses. The company said yesterday it planned to make further disposals to concentrate on clothing, textiles and distribution.

Weir has bought Darchem Engineering, Hoyt Darchem, Expert Heat Treatments, The Hoyt Metal Company of Australia and Darchem Engineering of California.

These make a range of products including insulation systems, fabricated components, specialist anti-friction alloys and white metal bearings.

as well as providing heat treatment services. The companies have annual sales of about £28m and made pre-tax profits last year of £2.9m.

Mr Ron Garrick, Weir's managing director and chief executive, said the Darchem businesses would complement and broaden Weir's product range and offer new business opportunities.

Weir, best known for its pumps, has spent about £120m on 23 acquisitions in the past six years, and sold nine businesses worth nearly £40m in the same period. The £16m price tag compares with £5m of adjusted end-1992 net assets for the businesses

Weir is buying. Mr John Dean, analyst at Albert E Sharp, the Birmingham-based broker, said: "It is not like Weir to pay significantly over net assets, and this reflects well on the profitability of the Darchem businesses."

Weir said the acquisitions would make a positive contribution to earnings. The group earned 35.5p per share last year on turnover of £424.8m and pre-tax profits of £39.2m.

William Baird's Darchem subsidiary is its umbrella company for non-textiles and clothing businesses. Last December, William Baird sold most of

Darchem's contracting side to Cape, the industrial services and building products group controlled by Charter.

It still owns the building services division of Darchem as well as several small companies in motor components that it was unable to sell to Weir or Cape.

The £16m from the Weir deal will initially add to the company's cash pile, which stood at £22m at the end of the last financial year.

"The cash released from the disposal of these businesses will be invested in the group's principal activity in clothing and textiles," said Mr Donald Parr, chairman.

## Govett to acquire US trust for \$3.8m

By Philip Coggan, Personal Finance Editor

GOVETT & Company, the fund management group, has agreed to buy the North American Trust Company for \$3.8m (£2.55m) from the Bank of San Diego.

The trust company provides pension trust services to law firms and medical services groups in the US and currently administers some \$1.4bn of assets. Govett already has a Jersey-based trust company, London Pacific.

Mr Ian Whitehead, chief financial officer, said the purchase gave Govett the administrative and operating capability to manage trust accounts for high net worth individuals, and allowed it the chance to cross-sell its investment management services. Trust companies are a source of high quality earnings, he said.

The agreement is subject to regulatory approval which is expected to be granted within six to eight weeks.

## Oceonics declines to £2m and seeks £4.35m

OCEONICS GROUP, a provider of survey and positioning services, reported pre-tax profits down from £2.72m to £2.04m from revenues up 4 per cent to £30.1m in the year to end-March.

The company also announced plans to raise £4.35m by a placing and open offer of redeemable preference shares and the redemption of

existing preference shares. Operating profit was £2.2m (£2.3m) after depreciation of £1.61m (£2.3m) and a charge of £2.6m in respect of exceptional losses on foreign currency overdrafts which were repaid during the year.

Net interest payable fell to £198,000 (£188,000) and tax took £243,000 (£264,000). This year's charge included £116,000 relating

to prior years, principally to profits of overseas subsidiaries, some of which could not be offset against losses brought forward in other subsidiaries.

After an extraordinary charge of £426,000 retained profits were £724,000 (£1.75m). Earnings per share were 0.6p (1.2p).

The company is to issue 4.35m 6 per cent convertible preference shares. All of the new preference shares have been placed with institutional investors at par.

Existing holders can apply on the basis of one preference share for every 30 ordinary shares.

The placing is conditional on approval by holders of existing 9.25 per cent preference shares

for their redemption at par plus payment of arrears and accruals of dividend in full.

In addition payment of a special dividend of 1p per existing preference share is proposed.

Most of the placing proceeds will be used to redeem the existing preference shares. The balance of some £883,000 will provide additional working capital.

## NEWS DIGEST

## McInerney suspended at 9p

SHARES IN McInerney Properties, the Dublin-based construction company, were suspended on the London Stock Exchange at 9p yesterday, pending clarification of its financial position.

As revealed last month, the company is in talks with certain non-bank creditors regarding a rescheduling of repayments due on sums amounting to some £1.45m (£1.35m).

The discussions, the company said, had taken longer than originally anticipated, although some progress had been made. However, one creditor, whose debt amounted to £1250,000, had taken action against McInerney in the UK courts.

Depending on the outcome of the talks, the preliminary results could be materially altered, and the future of the company remained uncertain, directors said.

## Scottish National

The split capital Scottish National Trust had a net asset value of 67.4p per capital share at June 30.

The figure marked a sharp recovery from the value of 21.9p a year earlier and just 2.8p at the trust's September year-end. Net revenue for the nine months to end-June declined to £9.24m (£11.32m), equivalent to earnings of 5.11p (6.44p) per income share. A third interim dividend of 1.8p reduces the total so far to 4.5p (5.6p).

## Five Oaks

Five Oaks Investments, the property investor and devel-

oper, is raising £12.2m in a placing and open offer of 47m new shares at 27p.

The proceeds will mainly be used to finance the acquisition of a portfolio of Scottish properties.

Four properties are being acquired together with an option to acquire a fifth.

Consideration is £3.27m and the issue of 3.5m shares created as fully paid, making an aggregate value of £9.2m.

The balance of the proceeds from the placing and offer will be used to reduce borrowings. Robert Fleming has underwritten 32.9m of the shares which have been conditionally placed with institutional investors.

Shareholders may apply for shares under the open offer on the basis of 1-for-1. British Land is taking up its full entitlement. Brokers are UBS.

Five Oaks also said that its pre-tax loss for the year to June 30 would be not

more than £900,000.

## N'humbrian Water

Northumbrian Water, the smallest of the 10 UK privatised water companies, has acquired a leasing management company as part of its treasury management programme.

The company has bought Hambros Leasing, which carries debt of £46.5m for a nominal £100. Hambros Leasing will be renamed NWGL Leasing and will generate £57.2m in the form of lease rentals receivable over the next years.

## African Lakes

African Lakes, the motor trading, mining and agriculture group, recorded a deficit of £181,184 pre-tax for the six months to March 31.

The outcome, which came on turnover ahead to £25m (£22.1m), compared with profits

last time of £485,330.

The figures were compiled under FRSS3. Losses per share emerged at 4.51p, against earnings of 0.69p, or after adjustment, losses of 5.01p.

## Drayton Far East

Drayton Far Eastern Trust had a net asset value of 135p per share at June 30 against 107.3p six months earlier and 90.7p at the previous half year.

First-half earnings came out at 0.624p (0.454p) per share and the interim dividend is held at 0.125p.

## Castle Cairn

Net asset value per share at Castle Cairn Investment Trust stood at 57.34p at June 30, compared with 49.78p a year earlier.

Available revenue for the six months to end-June improved from £55,000 to £69,000 for earnings per share of 0.57p, against 0.46p.

## Cairn Energy

Cairn Energy, the oil and gas exploration company, has raised \$17.5m (£11.6m) through the issue of new shares in CEUSA, its US subsidiary.

Receipts from the sale, leaving the UK group with a 6.1 per cent stake, will be used by CEUSA to repay debts of £2.6m to Cairn and \$3.6m in redemption of preferred stock.

## Inoco

Inoco, the property development company, swung back in the black with pre-tax profits of £334,000 for the six months to June 30, against a loss of £446,000.

The turnaround was partly due to lower interest charges of £2.3m, down from £3.7m. Earnings per share were 0.4p (losses of 0.23p).

## Mortgage Securities

(No. 1) Plc

£24,200,000

Class A

Mortgage Backed Floating

Rate Notes due 2023

In accordance with the provisions of the notes, notice is hereby given that for the interest period 30th July, 1993 to 29th October, 1993 the notes will carry an interest rate of 6.1005% per annum.

Interest payable on the relevant interest payment date 29th October, 1993 will amount to £1,560.37 per £100,000 note.

Agent Bank: Bank of Scotland

## Mortgage Securities

(No. 1) Plc

£20,000,000

Class B

Mortgage Backed Floating

Rate Notes due 2023

In accordance with the provisions of the notes, notice is hereby given that for the interest period 30th July, 1993 to 29th October, 1993 the notes will carry an interest rate of 6.3505% per annum.

Interest payable on the relevant interest payment date 29th October, 1993 will amount to £1,610.78 per £100,000 note.

Agent Bank: Bank of Scotland

This notice is issued in compliance with the requirements of the International Stock Exchange of the United Kingdom and the Republic of Ireland Limited ("the London Stock Exchange"). It does not constitute an invitation to the public to subscribe for, or purchase, any securities.

Applications have been made to the London Stock Exchange and The Johannesburg Stock Exchange for ordinary shares of Charter plc to be issued pursuant to a Scheme of Arrangement under Section 425 of the Companies Act 1985 ("the Scheme of Arrangement") to be admitted to their respective official lists. It is expected that the listings will become effective and dealings in ordinary shares will commence on Monday, 23rd August, 1993.

## Charter plc

(Incorporated in England under the Companies Act 1985)

Registered No. 2794949

## Introduction to the Official List

Following the implementation of the recommended proposals by Charter Consolidated P.L.C. for the realisation of Minorco's shareholding and the introduction of a new holding company, Charter plc (which will be effected by means of the Scheme of Arrangement) there will be in issue approximately 68,197,409 ordinary shares of 2p each.

Copies of the listing particulars comprised in the Scheme of Arrangement may be obtained during normal business hours from the Companies Announcements Office of the London Stock Exchange, London Stock Exchange Tower, Capel Court Entrance, off Bartholomew Lane, London EC2 by collection only, up to and including 5th August, 1993 or during normal business hours on any weekday up to and including 17th August, 1993 from:

Charter plc

7 HOABT PLACE

LONDON SW1W 0HH

Hoare Govett Corporate Finance Limited

4 BROADGATE

LONDON EC4M 3TE

Details will be included in the Companies Fiche Service available for collection from the London Stock Exchange, London Stock Exchange Tower, Capel Court Entrance, off Bartholomew Lane, London EC2.

3rd August, 1993

## Notice to the holders of the outstanding ECU 45,493,052 9 percent Bonds due 2020 (the "Bonds") of Euramagro N.V.

Formal notice is hereby given to the holders of the Bonds pursuant to their Terms and Conditions that a meeting will be held on August 25, 1993 at 14.00 hrs, in Curaçao, Netherlands Antilles at the offices of the Company at 55A de Ruyterkade, Curaçao, Netherlands Antilles.

An exchange of the Bonds into other long term bonds of similar nature will be proposed at the meeting.

In order to take part in the meeting, either personally or by proxy, the holders of Bonds are required to deposit their bonds at least 10 business days prior to the meeting at the registered office of Euramagro N.V., at the offices of the Paying Agent or at any recognised bank.

Euramagro N.V., de Ruyterkade 55A, Curaçao, Netherlands Antilles, Curaçao, July 1993

The FT proposes to publish an in-depth survey on India covering the economy, politics, finance, foreign relations, tourism, power industries, NRIs and more.

## INDIA

30th September, 1993

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# Footsie challenges its closing peak

By Terry Byland,  
UK Stock Market Editor

INVESTORS in the UK stock market continued yesterday to take a highly optimistic view of the implications for European and British interest rates from the dramatic developments in the ERM network. At the day's peak the FTSE 100 index was within a few points of its previous closing high, and overseas buyers were identified in both equities and stock index futures.

The first day of the new equity trading account opened on a confident note. There was slight disappointment, however, that the ERM was not "finally laid to rest" at the weekend, as one dealer put it. Shares gained as the market moved from the futures market and Wall Street made a slow start, showing a fall of 12 points on the Dow Jones in US trading hours. Equities also took note of a less aggressive performance in UK government bonds.

The final reading left the FTSE 100 at 2,941.7, a net gain of 15.2 points. At mid-session the Footsie touched 2,954.5, within 3 points of the closing high reached on March 8, although still some way short of a trading peak of 2,980.9, also in March.

Although several securities

houses upgraded forecasts for the UK market, it was clear at yesterday's morning strategy meetings that many houses were still wrestling with the implications of the new global investment scenario posed by the ERM currency developments.

The broad view was that interest rate cuts in Europe will open the way for a cut in UK base rates and also, by rejuvenating other continental European economies, give a boost to Britain's own economic recovery. Consequently, there were buyers both for stocks with interests or markets in France or elsewhere in Europe, but also for domestic retail or consumer stocks which would benefit quickly from a further reduction in UK base rates.

While a cut in base rates has long been foreshadowed in the stock market, the latest ERM developments strengthen the chances that the move will come soon. "The best news of all is that lower UK interest rates can be sustained... We forecast base rates still at 4 per cent at the end of 1994," said Mr Roger Boodie at Midland Bank.

At Strauss Turnbull, Mr Ian Harnett sees base rates at 5 per cent until the year-end. Strauss yesterday raised its year-end Footsie forecast to 3,250. Mr Harnett believes that dollar stocks will join in the upswing as lower interest rates in Europe help the US currency.

Mr Nick Knight, the Nomura analyst regarded as the most bullish of UK equity strategists, has reaffirmed his 3,500 year-end forecast, stressing that "The market to buy is the UK". He suspects that interest rate cuts may have been well discounted in the French market.

There was some disappointment in London, however, that equity trading volume was restrained - the Seaq total of 897.3m shares compared with 763.5m on Friday, and traders warned of profit-taking pressure. Some analysts believe that if French rate cuts are delayed, then London could be vulnerable to further selling. But retail, or customer, business in UK equities has risen sharply, returning a worth of 21.72bn on Friday and a similar figure on Thursday.

Regional press group Home Counties Newspapers bounced 15 to 115p after recent weakness.

Property stocks were perky, with good gains being seen across the board. British Land surged 9 to 360p and Land Securities 6 to 634p, with Smith New Court said to be recommending the stocks. Elsewhere, Great Portland added 5 1/2 to 193p, and Ham-mersmith 4 to 331p.

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## FT-SE

FT-SE 100	FT-SE MID 250	FT-A ALL-SHARE
2941.7 +15.2	3335.3 +28.8	1457.25 +8.49
Day's change	Day's change	Day's change
Aug 2 change %	Aug 2 change %	Aug 2 change %
FT-SE 100	2941.7	1457.25
FT-SE MID 250	3335.3	
FT-SE ALL-SHARE		1457.25
FT-SE 100	2941.7	1457.25
FT-SE MID 250	3335.3	
FT-SE ALL-SHARE		1457.25

1 CAPITAL GROUP(254)	1051.28	+0.8	1043.23	1034.55	1021.45	742.33	3.79	4.04	32.83	21.41	1281.22
2 Baring Bank(328)	1117.46	+0.3	1114.18	1065.71	1078.00	781.36	4.18	3.48	48.44	21.46	1281.27
3 Commercial Union(228)	957.15	+0.3	952.54	941.58	933.57	526.05	3.54	1.37	80.01	14.25	1281.27
4 Barclay's(15)	3126.71	+1.7	307.71	304.85	3021.49	2183.04	4.32	4.72	27.19	67.43	1280.48
5 ERM(238)	2325.05	+1.1	2325.05	2324.16	2333.45	1894.37	2.96	5.72	21.57	62.42	1280.86
6 Engineering Group(216)	426.46	+0.8	421.16	421.23	418.21	305.04	3.46	1	6.51	147.50	
7 Engineering Group(18)	607.18	+0.5	604.14	595.60	592.27	459.65	3.57	5.88	21.02	11.23	1213.29
8 Metals & Metal Forming(16)	461.30	+0.2	460.45	451.20	443.24	287.81	2.37	2	6.37	1457.03	
9 Motors(23)	422.10	+0.4	440.14	434.72	427.98	318.48	4.93	4.22	33.18	9.50	1207.98
10 Other Industrials(19)	2175.30	+0.4	2146.27	2123.05	2118.05	1630.97	4.15	5.28	22.01	51.30	1171.82
11 CONSUMER GROUP(223)	1651.95	+0.5	1633.18	1628.34	1614.54	1247.33	3.51	8.91	17.84	285.54	
12 Brewers and Distillers(28)	1827.81	+0.6	1805.69	1807.67	1804.63	1594.05	3.88	8.15	14.03	42.01	828.28
13 Food Manufacturers(22)	1306.56	+1.0	1303.08	1280.23	1270.10	1187.01	3.09	7.40	15.06	22.47	1007.89
14 Food Retailers(17)	2916.84	+2.3	2862.34	2863.38	2799.52	2763.26	3.29	8.06	14.00	48.09	913.03
17 HANCO & HANCO(19)	3290.47	+1.0	3232.44	3279.97	3288.00	3262.45	3.74	6.95	17.55	43.19	781.88
20 Hotels & Resorts(18)	1344.07	+0.5	1344.07	1344.07	1344.07	1117.45	4.38	6.24	20.07	45.01	1004.70
38 Media(35)	2016.51	+0.2	2016.51	2003.20	1998.57	1441.84	2.59	5.02	24.13	28.81	1121.26
41 Packaging and Paper(24)	876.01	+0.4	872.81	857.49	840.86	715.71	3.37	5.44	22.45	14.72	1141.38
44 Stores(39)	1218.47	+1.7	1196.49	1182.50	1169.21	978.56	2.85	5.07	22.81	18.30	1065.94
55 Telecom(39)	809.47	+1.6	797.10	795.95	791.00	612.06	3.78	5.95	21.05	14.80	1102.26
40 OTHER GROUP(41)	1547.94	+0.7	1537.62	1523.86	1510.48	1204.41	4.17	7.22	16.74	31.36	1098.70
42 Chemicals(22)	1547.94	+0.7	1537.62	1523.86	1510.48	1204.41	4.17	7.22	16.74	31.36	1098.70
43 Chemicals(22)	1550.50	+0.5	1542.18	1533.65	1508.44	1314.27	4.29	6.35	19.47	20.29	1117.30
44 Conglomerates(11)	1464.94	+0.3	1460.71	1446.30	1431.10	1216.80	5.23	7.41	15.21	35.51	1074.18
44 Telecom(15)	3085.39	+0.2	3078.47	3035.65	3007.56	2201.91	3.74	5.05	24.88	58.31	1132.11
45 Electricity(16)	1878.17	+1.0	1859.36	1849.49	1823.17	1324.14	4.19	7.18	10.47	54.18	1237.15
46 Electricity & Natural Gas(14)	1161.21	+1.1	1136.43	1136.74	1176.94	939.94	3.73	5.76	21.22	92.07	1081.58
47 Utilities(13)	2016.51	+0.2	2016.51	2003.20	1998.57	1441.84	2.59	5.02	24.13	28.81	1121.26
48 Miscellaneous(12)	1386.90	+0.1	1386.16	1379.52	1338.17	1192.88	4.43	8.05	14.52	76.72	997.92
49 INDUSTRIAL GROUP(58)	1477.14	+0.5	1467.70	1459.21	1445.05	1220.38	3.79	8.37	19.24	28.39	1051.00
50 Oil & Gas(18)	2558.27	+0.2	2553.21	2541.09	2504.56	1883.35	4.27	5.46	23.27	40.85	1164.87
51 "500" SHARE INDEX(508)	1971.56	+0.6	1953.26	1954.04	1538.54	1297.20	3.84	6.27	19.61	30.51	1082.55
61 FINANCIAL GROUP(19)	1026.81	+0.8	1027.14	1008.40	1075.55	686.61	3.89	3.42	43.64	22.73	1078.00
62 Banks(3)	1871.47	+0.2	1466.80	1481.54	1471.00	920.52	3.68	4.21	32.73	30.79	1325.84
65 Insurance (Life)(8)	1851.49	+0.3	1944.87	1935.74	1914.43	1452.12	4.57	4.92	25.96	47.79	1162.09
65 Insurance (Compensation)(7)	728.58	+0.8	723.02	712.74	712.24	454.16	4.27	3	15.80	118.00	
66 Insurance (Life)(8)	1739.52	+0.5	1633.99	1633.99	1633.99	1095.65	5.01	5.35	26.51	18.62	1256.65
68 Merchant Banks(2)	77.92	+1.1	739.55	727.37	709.01	605.05	3.01	6.10	13.23	1516.65	
69 Property(23)	467.46	+0.7	460.65	462.01	455.46	547.00	4.21	4.15	32.07	14.88	1545.55
70 Other Financials(23)	311.85	+0.8	409.29	405.01	401.65	253.08	3.68	5.30	26.26	7.18	1391.71
71 Investment Trusts(116)	1603.50	+1.0	1587.38	1589.42	1557.09	1063.28	2.56	2.94	48.13	22.36	1210.50
89 FT ALL-SHARE(8)	1457.25	+0.5	1448.76	1441.20	1428.88	1151.28	3.01	5.09	21.82	20.88	1065.91







INVESTMENT TRUSTS - Cont.

Trust	Price	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997	996	99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[illegible]



● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on ( 071 ) 873 4378 for more details.

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*[Faint header information]*

*[Faint body text, possibly containing dates and names]*

*[Faint footer or signature area]*











ASIA			EUROPE			AMERICA		
Stock	High	Low	Stock	High	Low	Stock	High	Low
Japan	12,300	12,200	Germany	1,200	1,150	USA	2,500	2,450
Asia	1,200	1,150	France	1,100	1,050	Canada	1,100	1,050
India	1,100	1,050	UK	1,000	950	Latin America	1,000	950
China	1,000	950	Italy	900	850	South America	900	850
South Korea	900	850	Spain	800	750	Caribbean	800	750
Philippines	800	750	Portugal	700	650	Central America	700	650
Indonesia	700	650	Greece	600	550	South America	600	550
Malaysia	600	550	Ireland	500	450	Caribbean	500	450
Thailand	500	450	Netherlands	400	350	Latin America	400	350
Singapore	400	350	Belgium	300	250	South America	300	250
Brunei	300	250	Austria	200	150	Caribbean	200	150
Timor	200	150	Sweden	100	50	Latin America	100	50
East Timor	100	50	Denmark	50	25	South America	50	25
West Timor	50	25	Finland	25	10	Caribbean	25	10
East Timor	25	10	Norway	10	5	Latin America	10	5
West Timor	10	5	Switzerland	5	2	South America	5	2
East Timor	5	2	Luxembourg	2	1	Caribbean	2	1
West Timor	2	1	Poland	1	0.5	Latin America	1	0.5
East Timor	1	0.5	Czech Republic	0.5	0.2	South America	0.5	0.2
West Timor	0.5	0.2	Slovakia	0.2	0.1	Caribbean	0.2	0.1
East Timor	0.2	0.1	Hungary	0.1	0.05	Latin America	0.1	0.05
West Timor	0.1	0.05	Slovenia	0.05	0.02	South America	0.05	0.02
East Timor	0.05	0.02	Croatia	0.02	0.01	Caribbean	0.02	0.01
West Timor	0.02	0.01	Serbia	0.01	0.005	Latin America	0.01	0.005
East Timor	0.01	0.005	Bosnia	0.005	0.002	South America	0.005	0.002
West Timor	0.005	0.002	Montenegro	0.002	0.001	Caribbean	0.002	0.001
East Timor	0.002	0.001	Albania	0.001	0.0005	Latin America	0.001	0.0005
West Timor	0.001	0.0005	Moldova	0.0005	0.0002	South America	0.0005	0.0002
East Timor	0.0005	0.0002	Romania	0.0002	0.0001	Caribbean	0.0002	0.0001
West Timor	0.0002	0.0001	Bulgaria	0.0001	0.00005	Latin America	0.0001	0.00005
East Timor	0.0001	0.00005	Greece	0.00005	0.00002	South America	0.00005	0.00002
West Timor	0.00005	0.00002	Italy	0.00002	0.00001	Caribbean	0.00002	0.00001
East Timor	0.00002	0.00001	Spain	0.00001	0.000005	Latin America	0.00001	0.000005
West Timor	0.00001	0.000005	Portugal	0.000005	0.000002	South America	0.000005	0.000002
East Timor	0.000005	0.000002	Greece	0.000002	0.000001	Caribbean	0.000002	0.000001
West Timor	0.000002	0.000001	Ireland	0.000001	0.0000005	Latin America	0.000001	0.0000005
East Timor	0.000001	0.0000005	Netherlands	0.0000005	0.0000002	South America	0.0000005	0.0000002
West Timor	0.0000005	0.0000002	Belgium	0.0000002	0.0000001	Caribbean	0.0000002	0.0000001
East Timor	0.0000002	0.0000001	Austria	0.0000001	0.00000005	Latin America	0.0000001	0.00000005
West Timor	0.0000001	0.00000005	Sweden	0.00000005	0.00000002	South America	0.00000005	0.00000002
East Timor	0.00000005	0.00000002	Denmark	0.00000002	0.00000001	Caribbean	0.00000002	0.00000001
West Timor	0.00000002	0.00000001	Finland	0.00000001	0.000000005	Latin America	0.00000001	0.000000005
East Timor	0.00000001	0.000000005	Norway	0.000000005	0.000000002	South America	0.000000005	0.000000002
West Timor	0.000000005	0.000000002	Switzerland	0.000000002	0.000000001	Caribbean	0.000000002	0.000000001
East Timor	0.000000002	0.000000001	Luxembourg	0.000000001	0.0000000005	Latin America	0.000000001	0.0000000005
West Timor	0.000000001	0.0000000005	Poland	0.0000000005	0.0000000002	South America	0.0000000005	0.0000000002
East Timor	0.0000000005	0.0000000002	Czech Republic	0.0000000002	0.0000000001	Caribbean	0.0000000002	0.0000000001
West Timor	0.0000000002	0.0000000001	Slovakia	0.0000000001	0.00000000005	Latin America	0.0000000001	0.00000000005
East Timor	0.0000000001	0.00000000005	Hungary	0.00000000005	0.00000000002	South America	0.00000000005	0.00000000002
West Timor	0.00000000005	0.00000000002	Slovenia	0.00000000002	0.00000000001	Caribbean	0.00000000002	0.00000000001
East Timor	0.00000000002	0.00000000001	Croatia	0.00000000001	0.000000000005	Latin America	0.00000000001	0.000000000005
West Timor	0.00000000001	0.000000000005	Serbia	0.000000000005	0.000000000002	South America	0.000000000005	0.000000000002
East Timor	0.000000000005	0.000000000002	Bosnia	0.000000000002	0.000000000001	Caribbean	0.000000000002	0.000000000001
West Timor	0.000000000002	0.000000000001	Montenegro	0.000000000001	0.0000000000005	Latin America	0.000000000001	0.0000000000005
East Timor	0.000000000001	0.0000000000005	Albania	0.0000000000005	0.0000000000002	South America	0.0000000000005	0.0000000000002
West Timor	0.0000000000005	0.0000000000002	Moldova	0.0000000000002	0.0000000000001	Caribbean	0.0000000000002	0.0000000000001
East Timor	0.0000000000002	0.0000000000001	Romania	0.0000000000001	0.00000000000005	Latin America	0.0000000000001	0.00000000000005
West Timor	0.0000000000001	0.00000000000005	Bulgaria	0.00000000000005	0.00000000000002	South America	0.00000000000005	0.00000000000002
East Timor	0.00000000000005	0.00000000000002	Greece	0.00000000000002	0.00000000000001	Caribbean	0.00000000000002	0.00000000000001
West Timor	0.00000000000002	0.00000000000001	Italy	0.00000000000001	0.000000000000005	Latin America	0.00000000000001	0.000000000000005
East Timor	0.00000000000001	0.000000000000005	Spain	0.000000000000005	0.000000000000002	South America	0.000000000000005	0.000000000000002
West Timor	0.000000000000005	0.000000000000002	Portugal	0.000000000000002	0.000000000000001	Caribbean	0.000000000000002	0.000000000000001
East Timor	0.000000000000002	0.000000000000001	Greece	0.000000000000001	0.0000000000000005	Latin America	0.000000000000001	0.0000000000000005
West Timor	0.000000000000001	0.0000000000000005	Ireland	0.0000000000000005	0.0000000000000002	South America	0.0000000000000005	0.0000000000000002
East Timor	0.0000000000000005	0.0000000000000002	Netherlands	0.0000000000000002	0.0000000000000001	Caribbean	0.0000000000000002	0.0000000000000001
West Timor	0.0000000000000002	0.0000000000000001	Belgium	0.0000000000000001	0.00000000000000005	Latin America	0.0000000000000001	0.00000000000000005
East Timor	0.0000000000000001	0.00000000000000005	Austria	0.00000000000000005	0.00000000000000002	South America	0.00000000000000005	0.00000000000000002
West Timor	0.00000000000000005	0.00000000000000002	Sweden	0.00000000000000002	0.00000000000000001	Caribbean	0.00000000000000002	0.00000000000000001
East Timor	0.00000000000000002	0.00000000000000001	Denmark	0.00000000000000001	0.000000000000000005	Latin America	0.00000000000000001	0.000000000000000005
West Timor	0.00000000000000001	0.000000000000000005	Finland	0.000000000000000005	0.000000000000000002	South America	0.000000000000000005	0.000000000000000002
East Timor	0.000000000000000005	0.000000000000000002	Norway	0.000000000000000002	0.000000000000000001	Caribbean	0.000000000000000002	0.000000000000000001
West Timor	0.000000000000000002	0.000000000000000001	Switzerland	0.000000000000000001	0.0000000000000000005	Latin America	0.000000000000000001	0.0000000000000000005
East Timor	0.000000000000000001	0.0000000000000000005	Luxembourg	0.0000000000000000005	0.0000000000000000002	South America	0.0000000000000000005	0.0000000000000000002
West Timor	0.0000000000000000005	0.0000000000000000002	Poland	0.0000000000000000002	0.0000000000000000001	Caribbean	0.0000000000000000002	0.0000000000000000001
East Timor	0.0000000000000000002	0.0000000000000000001	Czech Republic	0.0000000000000000001	0.00000000000000000005	Latin America	0.0000000000000000001	0.00000000000000000005
West Timor	0.0000000000000000001	0.00000000000000000005	Slovakia	0.00000000000000000005	0.00000000000000000002	South America	0.00000000000000000005	0.00000000000000000002
East Timor	0.00000000000000000005	0.00000000000000000002	Hungary	0.00000000000000000002	0.00000000000000000001	Caribbean	0.00000000000000000002	0.00000000000000000001
West Timor	0.00000000000000000002	0.00000000000000000001	Slovenia	0.00000000000000000001	0.000000000000000000005	Latin America	0.00000000000000000001	0.000000000000000000005
East Timor	0.00000000000000000001	0.000000000000000000005	Croatia	0.000000000000000000005	0.000000000000000000002	South America	0.000000000000000000005	0.000000000000000000002
West Timor	0.000000000000000000005	0.000000000000000000002	Serbia	0.000000000000000000002	0.000000000000000000001	Caribbean	0.000000000000000000002	0.000000000000000000001
East Timor	0.000000000000000000002	0.000000000000000000001	Bosnia	0.000000000000000000001	0.0000000000000000000005	Latin America	0.000000000000000000001	0.0000000000000000000005
West Timor	0.000000000000000000001	0.0000000000000000000005	Montenegro	0.0000000000000000000005	0.0000000000000000000002	South America	0.0000000000000000000005	0.0000000000000000000002
East Timor	0.0000000000000000000005	0.0000000000000000000002	Albania	0.0000000000000000000002	0.0000000000000000000001	Caribbean	0.0000000000000000000002	0.0000000000000000000001
West Timor	0.0000000000000000000002	0.0000000000000000000001	Moldova	0.0000000000000000000001	0.00000000000000000000005	Latin America	0.0000000000000000000001	0.00000000000000000000005
East Timor	0.0000000000000000000001	0.00000000000000000000005	Romania	0.00000000000000000000005	0.00000000000000000000002	South America	0.00000000000000000000005	0.00000000000000000000002
West Timor	0.00000000000000000000005	0.00000000000000000000002	Bulgaria	0.00000000000000000000002	0.00000000000000000000001	Caribbean	0.00000000000000000000002	0.00000000000000000000001
East Timor	0.00000000000000000000002	0.00000000000000000000001	Greece	0.00000000000000000000001	0.000000000000000000000005	Latin America	0.00000000000000000000001	0.000000000000000000000005
West Timor	0.00000000000000000000001	0.000000000000000000000005	Italy	0.000000000000000000000005	0.000000000000000000000002	South America	0.000000000000000000000005	0.000000000000000000000002
East Timor	0.000000000000000000000005	0.000000000000000000000002	Spain	0.000000000000000000000002	0.000000000000000000000001	Caribbean	0.000000000000000000000002	0.000000000000000000000001
West Timor	0.000000000000000000000002	0.000000000000000000000001	Portugal	0.000000000000000000000001	0.0000000000000000000000005	Latin America	0.000000000000000000000001	0.0000000000000000000000005
East Timor	0.000000000000000000000001	0.0000000000000000000000005	Greece	0.0000000000000000000000005	0.0000000000000000000000002	South America	0.0000000000000000000000005	0.0000000000000000000000002
West Timor	0.0000000000000000000000005	0.0000000000000000000000002	Ireland	0.0000000000000000000000002	0.0000000000000000000000001	Caribbean	0.0000000000000000000000002	0.0000000000000000000000001
East Timor								



*4 pm class August*

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ELECTRONICS

Continued on next page



NYSE COMPOSITE PRICES

NASDAQ NATIONAL MARKET

4 pm close August 2

Table with multiple columns: Stock, High, Low, Open, Close, Change. Includes sub-sections for 'S', 'T', 'U', 'V', 'W', 'X', 'Y', 'Z'.

Table with multiple columns: Stock, High, Low, Open, Close, Change. Includes sub-sections for 'A', 'B', 'C', 'D', 'E', 'F', 'G', 'H', 'I', 'J', 'K', 'L', 'M', 'N', 'O', 'P', 'Q', 'R', 'S', 'T', 'U', 'V', 'W', 'X', 'Y', 'Z'.

Table with multiple columns: Stock, High, Low, Open, Close, Change. Includes sub-sections for 'A', 'B', 'C', 'D', 'E', 'F', 'G', 'H', 'I', 'J', 'K', 'L', 'M', 'N', 'O', 'P', 'Q', 'R', 'S', 'T', 'U', 'V', 'W', 'X', 'Y', 'Z'.

AMEX COMPOSITE PRICES

Table with multiple columns: Stock, High, Low, Open, Close, Change. Includes sub-sections for 'A', 'B', 'C', 'D', 'E', 'F', 'G', 'H', 'I', 'J', 'K', 'L', 'M', 'N', 'O', 'P', 'Q', 'R', 'S', 'T', 'U', 'V', 'W', 'X', 'Y', 'Z'.

Table with multiple columns: Stock, High, Low, Open, Close, Change. Includes sub-sections for 'A', 'B', 'C', 'D', 'E', 'F', 'G', 'H', 'I', 'J', 'K', 'L', 'M', 'N', 'O', 'P', 'Q', 'R', 'S', 'T', 'U', 'V', 'W', 'X', 'Y', 'Z'.

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Table with multiple columns: Stock, High, Low, Open, Close, Change. Includes sub-sections for 'A', 'B', 'C', 'D', 'E', 'F', 'G', 'H', 'I', 'J', 'K', 'L', 'M', 'N', 'O', 'P', 'Q', 'R', 'S', 'T', 'U', 'V', 'W', 'X', 'Y', 'Z'.



## AMERICA

## US equities take their cue from Europe

## Wall Street

US shares rebounded yesterday after Friday's heavy selling and prices posted solid gains in the wake of sharply firmer overseas equity markets, writes Patrick Harrington in New York.

At 1pm, the Dow Jones Industrial Average was up 15.65 at 3,555.12. The more broadly based Standard & Poor's 500 was 1.21 higher at 449.34, while the Amex composite was down 1.07 at 455.99, and the Nasdaq composite up 2.35 at 707.05. Trading volume on the NYSE was 131m shares. After last week's late sell-off, which knocked nearly 30 points off the Dow, the markets opened in an upbeat mood. Early morning gains in London, Paris and Frankfurt stock markets, which reacted positively to the European Community finance ministers' decision to ease restrictions in the European Exchange Rate Mechanism and allow currencies more room to fluctuate, boosted prices from the start.

US investors hope that the relaxing of the ERM bands will allow European governments to lower their interest rates to boost local economic growth. Stronger growth in Europe should mean stronger demand for US exports, a part of the US economy that investors have been worried about lately.

There was also some, admittedly modest, good news at home, in the form of a rise in the National Association of Purchasing Management's July index of manufacturing activity. Although the index remains weak by normal post-recession standards, the increase was seen by investors as a welcome move in the right direction.

Among individual stocks, blue-chips and cyclical, which took the hardest battering last Friday, rallied. Caterpillar gained 51¢, at \$78½, Minnesota Mining & Manufacturing put

on \$1½ at \$106½, Eastman Kodak added 3¼ to \$4¼, and Coca-Cola added 3¼ to \$43¾. Motor stocks continued to outperform the market. Chrysler rose 3¼ to \$44¼, Ford climbed 1¼ to \$54¼, and General Motors added 3¼ to \$49¾. Semiconductor stocks were also in demand, lifted by positive comments about the sector in the Wall Street Journal. Motorola rose 3¼ to \$93¼, Texas Instruments added 3¼ to \$71¼, and National Semiconductor edged 3¼ higher to \$167.

Boeing fell 3¼ to \$39 on reports that the company may cut aircraft production if it fails to land an important order from Saudi Arabia. On the Nasdaq market, Dell Computer added 3¼ to \$20½ in volume of more than 1m shares on hopes that the company's performance will improve following the introduction of new products and a new marketing strategy.

● TORONTO was closed for a public holiday.

## EUROPE

## Frankfurt strengthens after ERM developments

CONTINENTAL bourses were generally encouraged by week-end developments, although some consolidation might be expected over the next few days as the expected round of interest rate cuts has, in many cases, already been discounted, writes Our Markets Staff.

FRANKFURT surprised many analysts by rising on the day, the DAX index closing 11.35 higher at 1,815.08, having moved between a range of 1,823 and 1,785.

Turnover was DM6bn. However, activity was reported as being confused after the weekend's events, and the market is generally expected to remain slightly volatile until longer term European trends become visible.

In spite of the likely loss of competitiveness in export markets, companies with exposure did not suffer the expected declines. Volkswagen, for instance, rose slightly, by 30 pips to DM45.50, while BMW gained 50 pips to DM54.00.

Mr Patrick Shields, of NatWest Securities, also noted strength in stores, Karstadt was up DM14 or 2.5 per cent at DM875, and financials; while

Via, up DM12.80 at DM436.50, was still benefiting from week end news of its increased stake in Bayernwerk.

Allianz, one of the day's biggest gainers, up DM55 at DM2315, was helped by a buy recommendation from a domestic institution.

PARIS continued its untroubled rally with the CAC-40 index nudging close to the all time record high, finishing up 43.15 or 2 per cent at 2,129.03. Turnover eased back to FF8.8bn from Friday's massive FF11.5bn.

Goldman Sachs yesterday raised its 12-month forecast for the CAC-40 to between 2,600-2,700, with expectations that it will reach 2,300 within the next quarter.

Among the movers Axa gained FF30 to FF1,480, SocGen FF22 to FF762, Bouygues FF13 to FF705, Carrefour FF113 to FF3,118 and LVMH by FF30 to FF4,184.

AMSTERDAM drifted lower amid concern over the export sector, although there were some notable exceptions to the general trend. The CBS Tendency index ended off 1.30 or 1 per cent at 120.80.

## ASIA PACIFIC

## Strong yen prompts wave of selling in export issues

## Tokyo

THE YEN'S strength prompted concern over the profitability of leading exporters, and share prices lost ground with many investors inactive, writes Emiko Terazono in Tokyo.

The Nikkei average shed 36.81 to 20,343.53 after a day's high of 20,412.64 on arbitrage-linked buying during the first few minutes of trading, and a low of 20,331.32 in the afternoon session.

Volume came to 210m shares, falling below 300m for the first time in three trading days. Financial institutions reshuffled portfolios, while investment trusts were inactive. Declines led advances by 616 to 336, with 196 issues unchanged. The Topix index of all first section stocks slipped 5.12 to 1,634.79, but in London

the ISE/Nikkei 50 index edged up 0.31 to 1,250.92.

Export-oriented companies, including car manufacturers, electricals, and precision instrument makers, were sold in response to the higher yen. Honda Motor dipped Y30 to Y1,360, Hitachi Y16 to Y833 and Canon Y30 to Y1,340.

Steels and shipbuilders, already facing lower profits due to the higher yen, also lost ground. Nippon Steel retreated Y5 to Y365 and Kawasaki Heavy Industries Y10 to Y147.

A further rise in gold bullion prices, supported by mining shares, Mitsui Mining and Smelting, the most active issue of the day, advanced Y11 to Y556, while Sumitomo Metal Mining gained Y20 to Y1,090.

Profit-taking depressed Nikkei, the bankrupt movie producer, by Y5 to Y23. The issue gained ground last week on

## FT-SE Actuaries Share Indices

		THE EUROPEAN SERIES									
		August 2	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close	
Hourly changes											
FT-SE Eurotrack 100		1347.28	1348.98	1349.49	1351.71	1353.37	1353.45	1351.56	1352.49		
FT-SE Eurotrack 200		1355.82	1357.99	1359.32	1359.94	1359.89	1359.85	1357.41	1357.49		
		Jul 30	Jul 29	Jul 28	Jul 27	Jul 26					
FT-SE Eurotrack 100		1253.91	1242.42	1236.35	1238.95	1240.21					
FT-SE Eurotrack 200		1343.59	1308.98	1297.58	1297.42	1294.91					

Rate index 1000 (26/7/93) 100 = 1256.51; 200 = 1359.59; London 100 = 1247.12; 200 = 1360.22

Nomura's global equity strategists see a buying opportunity in the Netherlands, recommending a switch into Dutch equities from France and Switzerland, forecasting that the market will benefit from dollar strength.

Alko, which releases second quarter results tomorrow, and Aegon were among the day's gainers, with respective gains of 30 cents and F1.30 to F1167.90 and F187.60.

Folygram, due to release first half figures today, was off 50 cents at F155.90, and Philips down 10 cents at F131.10.

RUSSELS put on 1.4 per cent to an all-time high with the strength of the dollar improving the prospects for exporters. The Bel-30 index

rose 18.27 to 1,344.63 in turnover of almost FF1.57bn.

Electrabel, the interest rate sensitive electricity utility, was the day's most active issue, rising BF20 to BF62.90.

MADRID moved firmly ahead at the opening, pulled higher by the strength of equities and bond futures, but a subsequent strengthening of the peseta against the dollar

left many domestic investors taking profits. The general index rose 2.78 to 2,724.74. Gains were seen across the board but foreigners were active buyers of banks.

Argentina led the sector higher, rising Pta210 to Pta5,560, with Banesto Pta55 ahead at Pta2,225, BCH Pta20 ahead at Pta3,710 and BBV

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Plas60 firmer at Pta3,290. LISBON's BTA index rose 38.7 or 1.7 per cent to 2,296.3 as the central bank cut its emergency rate for one day leading to resident banks to 13 per cent from 14.5 per cent.

MILAN gave up some ground after a late round of profit-taking and the Comit index finished 9.39 ahead at 572.81.

Trading was dominated by foreign demand for telecommunications issues. Sip, the domestic telephone company, rose L59 to L2,973 in volume of 13.2m shares while Stet, its parent, added L78 to L4,049 with almost 11m shares traded.

ZURICH was little changed as investors turned their attention to other European markets and the SMI index finished 0.6 lower at 2,400.3.

VIENNA rebounded from opening levels in healthy volumes and the ATX index gained 2.03 to 360.83, having picked up from a day's low of 329.38.

The early weakness was attributed to uncertainty in the wake of Europe's currency turmoil, but the market received reassurance when German shares began to gain.

COPENHAGEN closed 4 per cent ahead, the KFX index ending at 95.65. Unibank Securities commented that the market has lagged the rest of Europe because of the central bank's efforts to avoid a devaluation of the currency. "Over the last month the market has risen 1.1 per cent, while the Eurotrack has risen by 6.7 per cent. However, following the ERM agreement the krona will now fluctuate within a wider band...with market estimates of between 5-10 per cent."

STOCKHOLM's Allshare index general index recorded another year's high, up 4.70 at 1,207.70. In HELSINKI the HEX index added 1.5 per cent, closing at 1,310.2, while NOKIA's All Share index was little altered, losing 0.16 to 831.28.

ISTANBUL rose 2.16 per cent as the market overcame uncertainty following last Friday's resignation of Mr Rasim Sacoglu, the central bank governor, and the market index added 23.83 to 1,295.9.

Mr Saracoglu had quarrelled with Prime Minister Tansu Ciller over her plans to cut interest rates and use central bank funds to finance deficits.

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## New Zealand moves to a three-year high

## MARKETS IN PERSPECTIVE

	% change in local currency			% change sterling	% change US \$
	1 Week	4 Weeks	1 Year		
Austria	+0.35	+9.90	+18.27	+20.03	+13.24
Belgium	+1.36	+3.18	+18.55	+20.12	+11.11
Denmark	+2.73	+1.29	+5.27	+23.06	+15.91
Finland	+5.52	+11.87	+103.53	+63.66	+46.41
France	+4.04	+5.78	+17.38	+14.28	+9.26
Germany	+1.55	+5.53	+10.04	+18.40	+10.42
Ireland	+2.18	+1.50	+30.07	+37.29	+19.24
Italy	+3.01	+6.82	+63.74	+39.33	+28.78
Netherlands	+2.86	+3.90	+22.21	+19.48	+13.00
Norway	+3.56	+6.97	+19.15	+25.02	+18.06
Spain	+3.68	+4.00	+28.48	+26.19	+17.71
Sweden	+3.84	+5.98	+11.01	+21.41	+14.14
Switzerland	+1.80	+1.16	+30.76	+16.92	+14.74
UK	+3.52	+2.49	+24.50	+4.63	+2.63
EUROPE	+2.60	+4.01	+23.61	+13.30	+8.90

Australia	+1.10	+3.31	+9.50	+14.31	+14.85
Hong Kong	+3.21	+3.76	+15.87	+26.64	+28.89
Japan	+3.30	+5.02	+39.93	+25.93	+52.73
Malaysia	+1.23	+4.81	+48.54	+31.49	+36.81
New Zealand	+6.03	+7.30	+22.77	+20.72	+32.55
Singapore	+1.67	+1.09	+20.17	+15.56	+19.49
Canada	+3.31	+1.89	+7.03	+10.44	+9.33
USA	+0.17	+0.42	+6.19	+2.91	+4.93
Mexico	+5.74	+6.37	+18.18	+2.66	-0.71
South Africa	+5.26	+1.06	+22.57	+34.44	+48.21
WORLD INDEX	+1.92	+2.67	+19.37	+12.71	+19.18

† Based on July 2001 1992. Copyright, The Financial Times Limited, Goldman Sachs & Co, and NatWest Securities Limited.

## By John Pitt

In a week in which most investors' eyes were firmly fixed on the dramatic events unfolding in Europe, there was still plenty of activity occurring elsewhere to excite interest.

A sharp rise in the price of gold bullion lifted South Africa, and Mexico gained ground on good telmex results, while firmness in Japan on optimism that the political impasse there might be settled contributed to a near 2 per cent local currency advance for the FT-Actuaries World Index.

New Zealand achieved the second biggest gain on the week, just behind Finland, with the local index recording a three-year peak in high volumes. Sentiment was encouraged by better than expected three-month figures from Telecom, with expectations of good full year figures.

Analysts commented that most of the buying was domestic, but followed a trend elsewhere in the world, whereby

investors are seeking out high yielding stocks and moving funds into equities.

One of the few exceptions to an otherwise positive week in the global equity markets was Singapore. Since the beginning of the year the Straits Times Industrial index has advanced some 19 per cent but from the all-time high set at the end of May, the index has receded some 5 per cent.

Baring Securities, in a recent review of the market, says the current period of consolidation is to be expected given the high level of expectation that has been built into prices during the rally of the first half.

With the interim reports season under way, Baring expects strong performances from the electronics and property sectors. With regard to the latter, the broker cautions that "bullish prospects have largely been built into prices, which suggest that there is little scope for significant upward price movements, even though trading volume will remain strong because of abundant liquidity".

## FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co, and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS		FRIDAY JULY 30 1993										THURSDAY JULY 29 1993										DOLLAR INDEX										
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change	Point	Starting Index	YTD Index	Local Currency Index	Local % chg on 29/7	Gross Div Yield	US Dollar Index	Day's Change	Point	Starting Index	YTD Index	Local Currency Index	Local % chg on 29/7	Gross Div Yield	US Dollar Index	Day's Change	Point	Starting Index	YTD Index	Local Currency Index	Local % chg on 29/7	Gross Div Yield	US Dollar Index	Day's Change	Point	Starting Index	YTD Index	Local Currency Index	Local % chg on 29/7	Gross Div Yield
Australia (69)	140.85	+0.8	140.72	93.51	127.54	136.32	+0.5	3.63	139.77	+0.8	139.64	93.51	127.54	136.32	+0.5	3.63	138.77	+0.8	138.64	93.51	127.54	136.32	+0.5	3.63	137.94	+0.8	137.81	93.51	127.54	136.32	+0.5	3.63
Austria (17)	155.88	+2.4	155.42	103.28	140.87	140.90	+1.4	3.38	154.48	+2.4	154.02	103.28	140.87	140.90	+1.4	3.38	153.07	+2.4	152.61	103.28	140.87	140.90	+1.4	3.38	151.67	+2.4	151.21	103.28	140.87	140.90	+1.4	3.38
Belgium (42)	145.19	+0.6	144.95	96.31	131.37	131.22	+1.9	4.36	144.26	+0.6	144.02	96.31	131.37	131.22	+1.9	4.36	143.33	+0.6	143.09	96.31	131.37	131.22	+1.9	4.36	142.40	+0.6	142.16	96.31	131.37	131.22	+1.9	4.36
Canada (108)	128.45	+0.4	128.22	83.87	101.57	101.57	+0.6	2.16	127.17	+0.4	126.94	83.87	101.57	101.57	+0.6	2.16	126.24	+0.4	126.01	83.87	101.57	101.57	+0.6	2.16	125.31	+0.4	125.08	83.87	101.57	101.57	+0.6	2.16
Denmark (33)	211.99	+0.2	211.85	140.37	191.46	195.47	+0.6	1.16	210.71	+0.2	210.57	140.37	191.46	195.47	+0.6	1.16	209.43	+0.2	209.29	140.37	191.46	195.47	+0.6	1.16	208.10	+0.2	207.96	140.37	191.46	195.47	+0.6	1.16
Finland (23)	99.58	+1.0	99.61	66.33	94.47	125.05	+0.7	0.97	101.10	+1.0	101.13	66.33	94.47	125.05	+0.7	0.97	100.31	+1.0	100.34	66.33	94.47	125.05	+0.7	0.97	99.52	+1.0	99.55	66.33	94.47	125.05	+0.7	0.97
France (97)	136.27	+1.8	136.02	103.66	141.19	145.81	+2.0	3.14	135.87	+1.8	135.62	103.66	141.19	145.81	+2.0	3.14	135.07	+1.8	134.82	103.66	141.19	145.81	+2.0	3.14	134.27	+1.8	134.02	103.66	141.19	145.81	+2.0	3.14
Germany (101)	129.07	+2.0	128.87	91.57	101.57	101.57	+0.6	2.16	127.17	+2.0	126.97	91.57	101.57	101.57	+0.6	2.16	126.27	+2.0	126.07	91.57	101.57	101.57	+0.6	2.16	125.37	+2.0	125.17	91.57	101.57	101.57	+0.6	2.16
Hong Kong (97)	230.08	+1.3	229.63	185.01	253.45	273.89	+1.3	3.40	228.24	+1.3	227.79	185.01	253.45	273.89	+1.3	3.40	226.40	+1.3	225.95	185.01	253.45	273.89	+1.3	3.40	224.56	+1.3	224.11	185.01	253.45	273.89	+1.3	3.40
Ireland (15)	158.79	+0.5	158.64	105.35	143.69	181.94	+1.1	3.41	157.94	+0.5	157.79	105.35	143.69	181.94	+1.1	3.41	157.14	+0.5	156.99	105.35	143.69	181.94	+1.1	3.41	156.34	+0.5	156.19	105.35	143.69	181.94	+1.1	3.41
Italy (101)	89.84	+0.5	89.73	66.33	63.18	84.14	+1.5	1.83	89.37	+0.5	89.26	66.33	63.18	84.14	+1.5	1.83	88.90	+0.5	88.79	66.33	63.18	84.14	+1.5	1.83	88.43	+0.5	88.32	66.33	63.18	84.14	+1.5	1.83
Japan (470)	158.79	+0.5	158.64	105.35	143.69	181.94	+1.1	3.41	157.94	+0.5	157.79	105.35	143.69	181.94	+1.1	3.41	157.14	+0.5	156.99	105.35	143.69	181.94	+1.1	3.41	156.34	+0.5	156.19	105.35	143.69	181.94	+1.1	3.41
Malaysia (99)	350.86	+0.5	350.29	332.75	347.19	346.33	+0.4	1.96	349.18	+0.5	348.62	332.75	347.19	346.33	+0.4	1.96	347.41	+0.5	346.85	332.75	347.19	346.33	+0.4	1.96	345.68	+0.5	345.12	332.75	347.19	346.33	+0.4	1.96
Mexico (19)	1604.85	+1.4	1602.23	1064.68	1432.19	1471.86	+1.5	0.80	1596.33	+1.4	1597.28	1064.68	1432.19	1471.86	+1.5	0.80	1590.22	+1.4	1591.17	1064.68	1432.19	1471.86	+1.5	0.80	1584.08	+1.4	1585.03	1064.68	1432.19	1471.86	+1.5	0.80
Netherlands (101)	161.16	+0.5	161.01	105.35	143.69	181.94	+1.1	3.41	160.31	+0.5	160.16	105.35	143.69	181.94	+1.1	3.41	159.46	+0.5	159.31	105.35	143.69	181.94	+1.1	3.41	158.61	+0.5	158.46	105.35	143.69	181.94	+1.1	3.41
New Zealand (13)	55.77	+2.8	55.67	57.00	54.42	53.48	+2.2	1.63	55.21	+2.8	55.11	57.00	54.42	53.48	+2.2	1.63	54.75	+2.8	54.65	57.00	54.42	53.48	+2.2	1.63	54.29	+2.8	54.19	57.00	54.42	53.48	+2.2	1.63
Norway (22)	169.48	+1.4	169.23	105.35	143.69	181.94	+1.1	3.41	168.58	+1.4	168.33	105.35	143.69	181.94	+1.1	3.41	167.68	+1.4	167.43	105.35	143.69	181.94	+1.1	3.41	166.78	+1.4	166.53	105.35	143.69	181.94	+1.1	3.41
Portugal (98)	250.07	+0.3	249.87	165.63	206.28	186.40	+0.1	1.86	250.05	+0.3	249.85	165.63	206.28	186.40	+0.1	1.86	249.99	+0.3	249.79	165.63	206.28	186.40	+0.1	1.86	249.93	+0.3	249.73	165.63	206.28	186.40	+0.1	1.86
Spain (44)	115.33	+0.1	115.14	142.82	194.81	211.29	+0.4	2.43	114.90	+0.1	114.71	142.82	194.81	211.29	+0.4	2.43	114.47	+0.1	114.28	142.82	194.81	211.29	+0.4	2.43	114.04	+0.1	113.85	142.82	194.81	211.29	+0.4	2.43
Sweden (38)	172.42	+1.3	172.14	114.39	156.03	210.46	+1.4	1.80	170.19	+1.3	169.91	114.39	156.03	210.46	+1.4	1.80	169.74	+1.3	169.46	114.39	156.03	210.46	+1.4	1.80	169.27	+1.3	168.99	114.39	156.03	210.46	+1.4	1.80
Switzerland (50)	127.18	+0.0	126.94	94.37	115.08	121.08	+0.1	1.87	127.14	+0.0	126.90	94.37	115.08	121.08	+0.1	1.87	127.10	+0.0	126.86	94.37	115.08	121.08	+0.1	1.87	127.06	+0.0	126.82	94.37	115.08	121.08	+0.1	1.87
United Kingdom (218)	176.89	+0.3	176.70	117.34	166.05	176.80	+0.4	3.34	176.37	+0.3	176.17	117.34	166.05	176.80	+0.4	3.34	175.85	+0.3	175.65	117.34	166.05	176.80	+0.4	3.34	175.33	+0.3	175.13	117.34	166.05	176.80	+0.4	3.34
USA (751)	183.28	+0.1	182.95	121.60	165.86	183.26	+0.5	2.79	184.16	+0.1	183.83	121.60	165.86	183.26	+0.5	2.79	184.16	+0.1	183.83	121.60	165.86	183.26	+0.5	2.79	184.16	+0.1	183.83	121.60	165.86	183.26	+0.5	2.79
Europe (520)	145.27	+0.1	145.04	96.38	131.48	141.46	+1.4	3.15	145.10	+0.1	144.87	96.38	131.48	141.46	+1.4	3.15	144.93	+0.1	144.70	96.38	131.48	141.46	+1.4	3.15	144.76	+0.1	144.53	96.38	131.48	141.46	+1.4	3.15
Nordic (114)	183.63	+0.7	183.56	106.89	148.23	174.12	+1.2	1.42	183.29	+0.7	183.22	106.89	148.23	174.12	+1.2	1.42	182.93	+0.7	182.86	106.89	148.23	174.12	+1.2	1.42	182.58	+0.7	182.51	106.89	148.23	174.12	+1.2	1.42
Scandinavia (33)	150.41	+0.7	150.34	106.89	148.23	174.12	+1.2	1.42	150.07	+0.7	149.99	106.89	148.23	174.12	+1.2	1.42	149.73	+0.7	149.65	106.89	148.23	174.12	+1.2	1.42	149.38	+0.7	149.30	106.89	148.23	174.12	+1.2	1.42
Europe Pacific (1465)	154.01	+0.7	153.76	102.17	139.38	123.66	+2.0	1.87	152.87	+0.7	152.62	102.17	139.38	123.66	+2.0	1.87	152.74	+0.7	152.49	102.17	139.38	123.66	+2.0	1.87	152.61	+0.7	152.36	102.17	139.38	123.66	+2.0	1.87
North America (626)	178.74	+0.4	178.49	118.28	162.67	178.81	+0.4	2.79	180.53	+0.4	180.28	118.28	162.67	178.81	+0.4	2.79	180.40	+0.4	180.15	118.28	162.67	178.81	+0.4	2.79	180.27	+0.4	180.02	118.28	162.67	178.81	+0.4	2.79
South America (23)	180.10	+1.0	179.89	126.13	172.03	175.68	+0.8	3.15	180.29	+1.0	180.08	126.13	172.03	175.68	+0.8	3.15	180.48	+1.0	180.27	126.13	172.03	175.68	+0.8	3.15	180.67	+1.0	180.46	126.13	172.03	175.68	+0.8	3.15
Pacific Ex Japan (244)	180.10	+1.0	179.89	126.13	172.03	175.68	+0.8	3.15	180.29	+1.0	180.08	126.13	172.03	175.68	+0.8	3.15	180.48	+1.0	180.27	126.13	172.03	175.68	+0.8	3.15	180.67	+1.0	180.46	126.13	172.03	175.68	+0.8	3.15
World Ex US (1932)	154.81	+0.8	154.59	102.10	139.51	125.75	+0.3	1.90	154.82	+0.8	154.60	102.10	139.51	125.75	+0.3	1.90	154.83	+0.8	154.61	102.10	139.51	125.75	+0.3	1.90	154.84	+0.8	154.62	102.10	139.51	125.75	+0.3	1.90
World Ex UK (1552)	181.89	+0.8	181.69	102.10	139.51	125.75	+0.3	1.90	181.90	+0.8	181.70	102.10	139.51	125.75	+0.3	1.90	181.91	+0.8	181.71	102.10	139.51	125.75	+0.3	1.90	181.92	+0.8	181.72	102.10	139.51	125.75	+0.3	1.90
World Ex Japan (2112)	189.38	+0.8	189.18	102.10	139.51	125.75	+0.3	1.90	189.39	+0.8	189.19	102.10	139.51	125.75	+0.3	1.90	189.40	+0.8	189.20	102.10	139.51	125.75	+0.3	1.90	189.41	+0.8	189.21	102.10	139.51	125.75	+0.3	1.90
World Ex Japan (1702)	189.38	+0.1	188.10	111.71	152.38	185.36	+0.0	2.91	188.55	+0.1	187.27	111.71	152.38	185.36	+0.0	2.91	187.74	+0.1	186.46	111.71	152.38	185.36	+0.0	2.91	186.93	+0.1	185.64	111.71	152.38	185.36	+0.0	2.91
The World Index (2172)	160.20	+0.3	160.33	108.27	147.86	143.62	+0.0	2.23	160.70	+0.3	160.82	108.27	147.86	143.62	+0.0	2.23	161.20	+0.3	161.32	108.27	147.86	143.62	+0.0	2.23	161.70	+0.3	161.82	108.27	147.86	143.62	+0.0	2.23